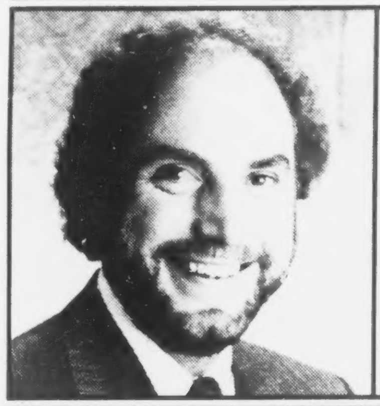
EDITORIAL

Will Credit Crunch Squeeze Discounters?

The fact is that most major lenders have soured on the retailing industry, thanks to the problems of Campeau, the continuing struggle of Macy's, the overall perception of a soft retail market, and the huge debt load being carried by so many retailers.



TONY LISANTI
Editor

I am worried about the impact one simple word—or the lack of it—will have on retailing as we enter the second half of the year.

No, it's not recession or inflation, although these things continue to threaten the retail industry. No, it's not competition or service, although these things continue to plague many retailers. (See Don Longo's column below.)

The word is credit; the concern is about a crunch. And every retailer should be equally concerned. The credit problem is twofold: commercial and consumer. First let's examine commercial credit. Consider these comments:

"Bankers are closely scrutinizing their loans," said Lissa Baum, vice president and regional manager of Chemical Bank's textile and apparel business during a conference in March cosponsored by Chemical Bank and Deloitte & Touche. She noted that the fashion industry is highly volatile and that a softening economy, too much leverage, and an expected shakeout of more retailers has bankers concerned.

"In some cases—where the company is highly leveraged or unprofitable—bank lines will be cut back. In the '90s, credit will be given where it's deserved and not always where it's asked for," she added.

According to Baum, bankers in the '90s will be looking for "borrowers who are well-capitalized, liquid and profitable. Companies that don't grade well in these categories are in for a much tougher ride," she said.

When asked if there is a credit crunch on Seventh Avenue, Baum said, "Banks have plenty of money to lend to good names "

The fact is that most major lenders (e.g. Chemical Bank, and Citibank) have soured on the retailing industry, thanks to the problems of Campeau, the continuing struggle of Macy's, the overall perception of a soft retail market, and the huge debt load being carried by so many retailers.

All these factors affect the ability of retailers to raise money to fund new start-up concepts, expand the core concept, develop new prototypes, install new fixturing and POS systems, remodel old stores and so on. Many discounters are heavily committed to such plans as part of their strategy for growth and profitability, and in some cases, survival in the 1990s.

On the consumer side, the availability of home equity loans as well as other types of personal loans, have dried up considerably. In addition, interest from credit card purchases will no longer be deductible; tax increases have been enacted in several states (e.g. New Jersey raised taxes on July 1); continued downsizing philosophy of many companies will result in more layoffs. And like many retailers, consumers are also carrying a high debt load. These factors could result in a serious decline in consumer spending during the balance of 1990 and beyond.

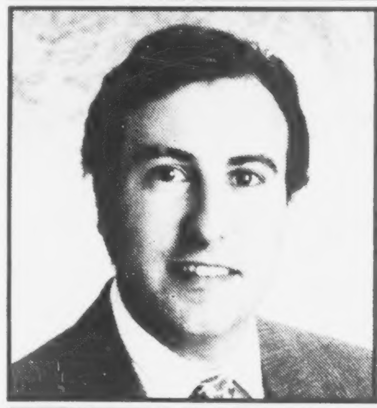
Add to this scenario the aforementioned threats of recession, inflation, competition, etc. and retailers face a tough second half.

Phew! But when the market gets tight, I am reminded of the adage that discounters fair well in turbulent economic times.

So I guess there really is nothing to worry about. Right?

BUYERS & SELLERS

There's No Escaping Competition This Decade



DON LONGO
Exec Editor

Competition and customer service are the most challenging problems for discount retailers in the 1990s, according to a poll of chain headquarters and store executives taken by *DSN* earlier this year.

Looking at the results of this telephone survey of 200 industry executives, I was reminded of a comment made earlier this year by Leonard Luria, chairman of the Florida catalog showroom chain, L. Luria & Sons, at the National Association of Catalog Showroom Merchandisers' annual dinner. Luria said, "My management team won't tell me, 'Competition is harder than ever,' or those people won't be here any more."

Luria's unwillingness to accept increased competition as an excuse for poor results is an attitude that every retailer, and manufacturer, should embrace. History shows that as competition intensifies, the good get better and the lazy disappear.

Customer service (17 percent) drew nearly as many responses as competition (18 percent) to the question, "What are the most challenging events or problems of the 1990s?" Interestingly, customer service is one of the ways in which many retailers are differentiating themselves from their competition. Clearly, the two problems are closely related. Since "pricing" was named as a major problem by relatively few retailers (just 8 percent), it appears that providing better service to customers will draw increased attention, and investment dollars, from retailers in the decade ahead.

If I were a vendor, I'd try to focus my programs for retailers to address these concerns. For example, I'd want to develop special fixturing and signage that would help a retailer differentiate himself from the pack. I'd also jump at the opportunity to cultivate a Quick Response partnership with the retailer, tying into his computer system to facilitate rapid replenishment of my merchandise on his shelves. After all, being in-stock with the merchandise a shopper wants to buy is one of the best forms of customer service.

Other major concerns of retailers include the economy and financial solvency (14 percent) and personnel—staff and payroll (12 percent).

The survey, conducted for *DSN* by Fairfield Research Inc., of Lincoln, Neb., also asked retailers to identify what they thought would be the hot products of the 1990s.

Thirty-three percent named high-tech consumer products. That would appear to be good news for consumer electronics manufacturers. Already, more discounters are either selling or considering large-screen TVs, facsimile machines, personal computers, electronic dictionaries, language interpreters, and the like, laser disc players, and other "techie" products. The key: Anything the consumer can take home, plug in and begin working or playing with will sell.

Another 26 percent cited clothing and accessories as a hot product category for the 1990s. At least one consulting firm has predicted that discount stores will continue to grab a larger share of consumers' apparel dollars, mostly at the expense of full-price department stores. Trendy apparel manufacturers like Bonjour have recognized this trend and are now focusing on the discount trade. More "upstairs" brands are sure to follow.

Other hot products of the 1990s include: home entertainment/video games (7 percent), environmentally safe products/packaging (6 percent), time saving/convenience products (5 percent), fads or trendy merchandise (4 percent), toys (4 percent) and sporting goods (3 percent).

Competition is no less a factor in the publishing industry than it is in retailing. It was personally gratifying that nearly three-quarters (74 percent) of respondents said they would choose *DSN* if they could read only one retail trade publication. The next closest industry publication received only 9 percent of responses. While we're thrilled with that response, we at *DSN* pledge to continue to serve the mass retailing industry by gathering and disseminating information that helps retailers and manufacturers make better business decisions.

Discount Store News.

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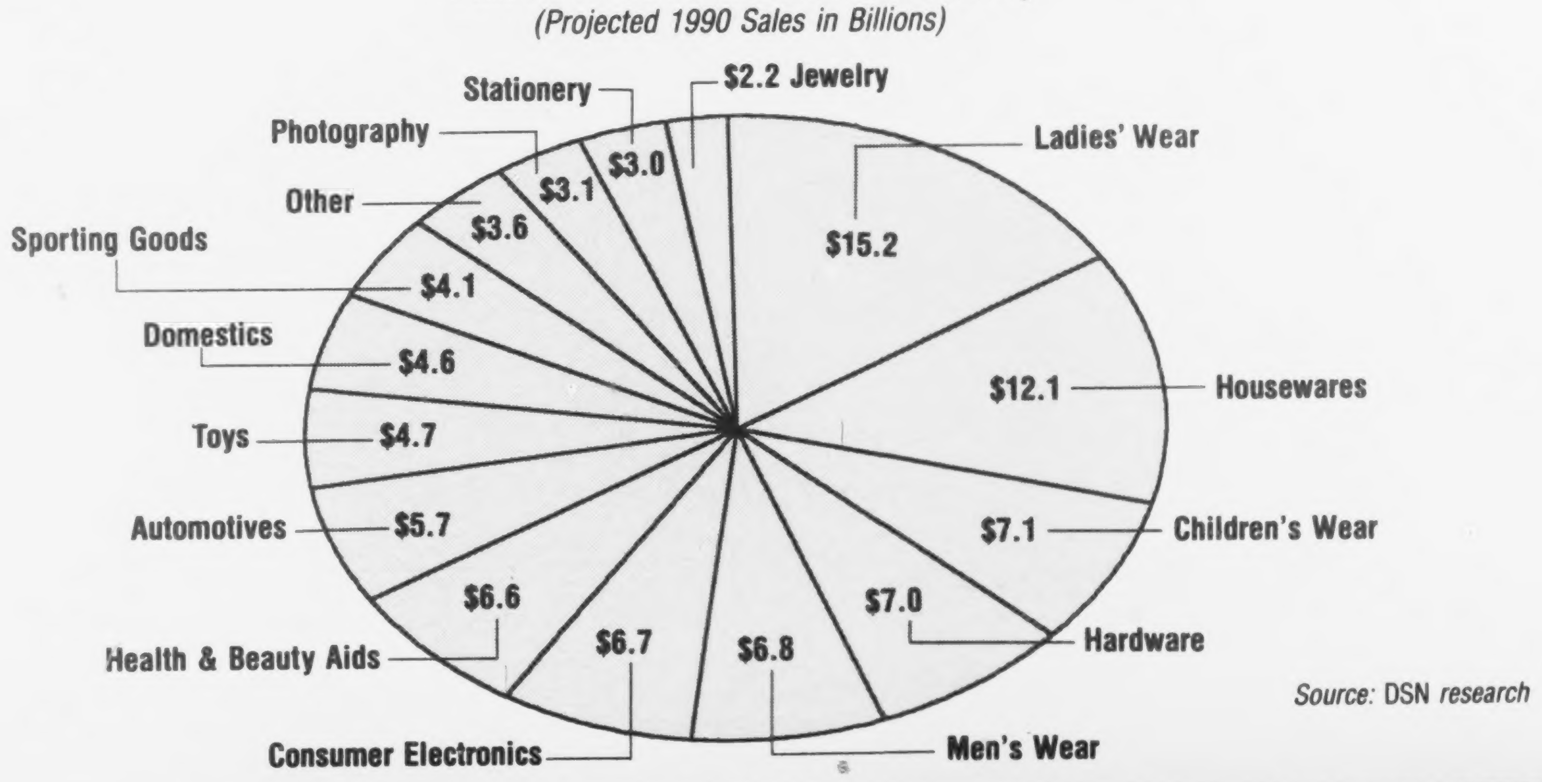
Discount Store News

ANNUAL REPORT 1989

PART 2:

Merchandising & Productivity

Fashion. Fashion. And, more fashion. Fashion merchandising permeated nearly every product category last year, from apparel and domestics to housewares and stationery. This special section examines sales, productivity and major trends in the top 14 discount department store merchandise categories. It also looks at the productivity of the top discounters and provides a store count census of discount department stores, membership clubs and catalog showrooms by region and state. The special report, compiled by the entire DSN editorial staff, concludes with profiles on the top 10 discounters in the nation.



Full-Line Discount Store Productivity

(Projected 1990 Sales in Billions)

Source: DSN *research*

Discount Industry Annual Report

PART II: MERCHANDISING AND PRODUCTIVITY ANALYSIS

Apparel Skirts 31% of Market

Ladies' wear, housewares, children's wear and hardware will be the leading volume producing categories for discount department stores this year, according to *DSN* research.

With combined sales of $29.1 billion, ladies', men's and children's apparel departments will account for over 31 percent of the projected $92.5 billion that full-line discount department stores will generate in 1990. Adding the $2.2 billion expected to be generated by discounters' jewelry departments this year, the apparel and fashion categories will account for more than one-third of total store sales.

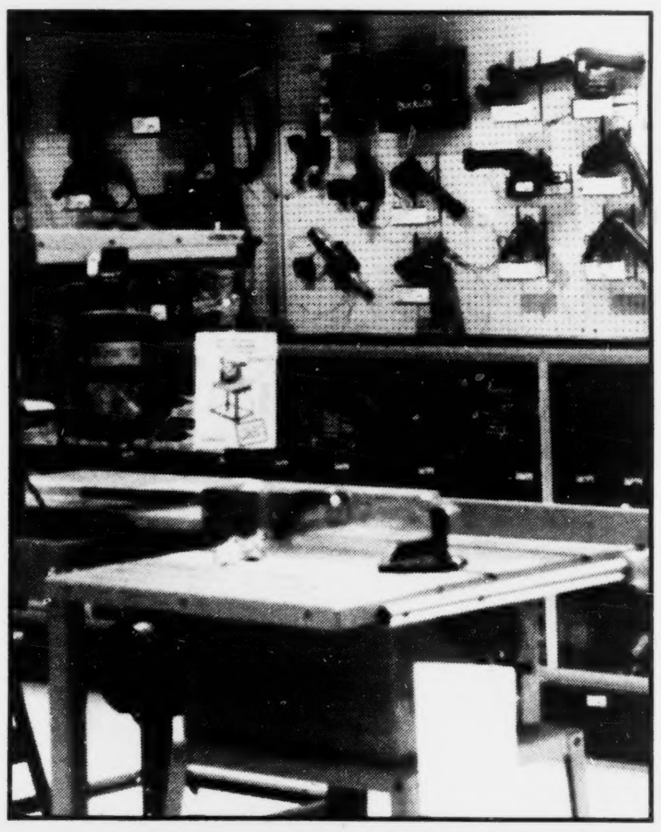
The home products categories of housewares, consumer electronics, domestics and photography will also generate a hefty percentage of full-line discounters' sales. These categories will generate $26.5 billion in sales this year, approximately 28.6 percent of total store sales.

The remainder of discount store sales will come from the hard lines departments of hardware, health & beauty aids, automotives, toys, sporting goods and stationery. These categories will generate about $31.1 billion in sales this year, or about 33.6 percent of total volume. Miscellaneous other product categories will total some $3.6 billion in sales for discounters.

Other major merchandising trends of the past year were:

- A resurgence in sales of dresses, casual sportswear and knits in women's wear. The "value image" of discounters and their continuing efforts to upgrade or upscale various departments have made them a force to be reckoned with in the women's apparel industry.
- An emphasis on casual looks and branded merchandise in men's wear.
- Intense competition from specialty stores for the children's wear business. Ward and Sears launched major new kids' specialty concepts, while Toys "R" Us added 25 stores to its Kids "R" Us apparel division.
- Fun and trendy accessories added sparkle to the jewelry and accessory business.
- The continuing recasting of discounters' home products departments into home decor centers added a new fashion focus to the non-electrics housewares business.
- Home health care, "feel good" products like massagers and vacuum cleaners were the success stories in electric housewares last year.
- Feature-laden, inexpensive 35mm cameras led a rebound in the photo department last year.
- Discounters continued to cut into full-price department store and specialty store home fashions business by upgrading their domestics assortments.
- Fashion colors, improved greeting cards displays and office quality supplies swept through discounters' stationery departments as the home office business exploded.
- New products spawned by environmental concerns added a new twist to the hardware and lawn & garden categories.
- In H&BA, diet products, ethnic and professional hair care merchandise, eye care and environmentally neutral products were the rage.
- While video game sales continued to siphon dollars away from the traditional toy categories, many discounters reported success with trading cards, dolls and licensed characters.
- Waxes and polishes shined the brightest in the automotives department.
- Golf and fitness products are the bright spots in sporting goods.

Top Volume Departments



Full-Line Discount Store Productivity

Category	Discount Volume (In Billions)	Sales Per Store (In Thousands)	Dept. Size (In Sq. Ft.)	Annual Sales Per/ Sq. Ft.	Annual Turns	Percent Initial Markup	Percent Gross Margin
Ladies' Wear	$15.2	$1,936	11,000	$176.03	4.0	47.2%	32.5%
Housewares	12.1	1,541	7,550	204.16	3.5	36.3	24.5
Children's Wear	7.1	904	7,500	120.59	3.8	44.5	30.5
Hardware	7.0	891	4,500	198.16	2.5	40.0	32.0
Men's Wear	6.8	866	6,500	133.27	4.1	46.5	33.4
Consumer Electronics	6.7	853	2,300	371.09	3.5	30.0	16.5
Health & Beauty Aids	6.6	840	3,200	262.74	5.2	25.5	19.5
Automotives	5.7	726	2,300	315.70	3.2	33.8	24.8
Toys	4.7	598	2,500	239.49	3.0	36.9	26.2
Domestics	4.6	585	4,000	146.50	2.5	44.2	34.0
Sporting Goods	4.1	522	2,500	208.92	2.1	37.0	27.8
Photography	3.1	394	500	789.81	3.8	25.9	18.0
Stationery	3.0	382	2,000	191.08	4.3	47.1	42.0
Jewelry	2.2	280	650	431.16	2.0	52.2	42.9

Housewares includes personal care, small electrics, non-electrics and RTA furniture.

Hardware includes paint.

Children includes girls', boys', infants' and toddlers' wear.

Source: DSN research

Annual Discount Industry Report

Part II: Merchandising and Productivity Analysis

Apparel

Ladies' Wear 31
Men's Wear 33
Children's Wear 34
Jewelry 33

Home Products

Housewares 37
Photo 42
Consumer Electronics 45
Domestics 47

Hard Lines

Stationery 49
Hardware 50
Health & Beauty Aids 53
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Sales Productivity 64
Chains by Region, State 66
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APPAREL

Women's • Men's • Children's • Hosiery • Jewelry & Accessories • Underwear • Intimate Apparel

Discounters Top Ladies' Sales

Separates, Mix 'n Match Add Up In Women's Apparel for 1989

Ladies' Wear $21.5 Billion	
Full-Line Discounters	$15.2B
Catalogers	0.3B
Specialty Discounters	$6.0B
Full-Line Discount Store Productivity	
Sales	$15.2B
Sales Per Store	$1,936,306
Dept. Size	11,000 Sq. Ft.
Sales Per Sq. Ft.	$176.03
Turns	4.0
Initial Markup	47.2%
Gross Margin	32.5%

Source: DSN *research*

***American Fare, Atlanta:** Most of the women's wear discounters had a successful year in 1989 through sales of dresses, casual sportswear and knits.* (DSN photos)

The majority of women's off-price retailers did exceptionally well in 1989, carried by a resurgence in sales of dresses, casual sportswear and knits.

Retail analysts reported the "value image" of discounters and the continuing efforts to upgrade or upscale various departments have made them a force to be reckoned with in the women's apparel industry.

ANNUAL REPORT PART II

Complaints of a lack of trends in the women's market last year did not necessarily hold true for discounters. A few innovative manufacturers and equally innovative merchandise managers managed to infuse some excitement into a category that many consumers claim is plagued with "sameness."

Much of the newness in discount retailing last year came from vendors such as Gitano and Bonjour who capitalized on the continuing interest in related separates and mixed and matched bold colors and patterns in garments for their customers. Gitano, which began its shop-within-a-store concept with Caldor a little over a year ago, has found a successful formula and has helped many retailers upscale the look of the women's apparel department.

Bonjour Explores Shop Concept

Bonjour is another manufacturer working on the shop concept. Some retailers created their own shops to capture apparel dollars. Target, for instance, did well with an Urban Surf label and area that made the most of the beach lifestyle trends. JIK Ltd., which produced the Target line reported the test of the label was successful, mostly because of quick turnarounds on replenishments and updated garments.

According to a study by Kurt Salmon Associates (KSA), women spent 18.3 percent of their apparel dollars at discount stores. An even larger percentage, 21 percent, went to a category KSA calls Minor Channels. These include off-price retailers, factory outlets, mail-order catalogs and warehouses—distributors that are fast becoming majors.

The fashions that did best were young in mood and style. Short skirts, dresses, knit tops and anything in comfortable stretch fabric did well. In general, a softness in styling and fabrication is a current trend that is expected to continue to sell clothing. While fleece continues to be an important fabrication, the lycra stretch fabrics mixed with cotton and nylon are likely to replace it as the most prevalent street fashion.

In the first quarter, analysts reported almost all categories of women's apparel did better than last year. Surprisingly, the sweaters category, one of the strongest in men's wear was the weakest element in women's. Another strange phenomenon, a firm 6 percent increase in bra sales, which can be attributed to heavy advertising in this market. America may be on a basic foundations craze. This sales report matches a report of an increase in sales for men's underwear as well.

Apparel areas in discount department stores such as Caldor and Jamesway were given new priority as the year progressed. A departmentalized look to women's apparel in the stores was accomplished with brand spotlighting and better use of displays. These stores moved away from straight pipe rack displays to more sophisticated rounders, waterfall displays and four-sided racks. Marshalls also worked on making shopping easier. Signage and a reorganization of its merchandise in many of its units distinguished its major areas, including the specialized petites and large size departments.

Store size was also a heavily debated and tested topic in 1989. Many discounters began with grand expansion plans but had to adjust to various outside factors. Among the off-price specialty chains, smaller stores, designed to either fit the demographic area or to better showcase the merchandise was the more successful norm.

T.J. Maxx tried both larger and smaller stores, but found the smaller stores, at between 18,000 square feet to 20,000 square feet, more successful.

Ross Stores' smaller prototype focused on women's apparel and accessories, but cut down somewhat on men's wear. A totally revamped prototype was introduced last year. Brighter colors and new fixturing added to the upscale appeal of the store and helped increase sales.

Dress Barn concentrated on women's career apparel and took advantage of a growing merchandise category by opening Dress Barn Woman. The new division, which features women's clothing in sizes 16 to 24, now numbers 17. The chain also streamlined some operating procedures that are helping it run more efficiently. Last year, it introduced electronic registers to its stores. Plans this year call for POS scanning to be rolled out to all the units.

Apparel still accounts for the largest share of discount retail volume. Store openings and remodellings go on happily. Increasingly, however, retailers are finding they need to balance the merchandise mix. A number of the traditional off-price apparel chains increased sales with new product mixes.

Marshalls experimented with larger prototypes. Most of the increased space at the chain's "superstore," however, was used for home furnishings and gifts while apparel floor space remained stable.

Burlington Coat Factory continued to do well in all apparel areas. The retailer's merchandise mix still leans heavily on outerwear, which accounts for 50 percent of company sales. Sportswear and other apparel registers about 40 percent of sales. The other 10 percent includes merchandise such as linens and juvenile furniture, both formerly leased departments. Burlington now runs these two areas itself, while shoes, jewelry and housewares are leased departments in its 149 stores.

Almost all the stores expanded the accessories mix. Some added space in the apparel area, while others created an independent accessories department.

Despite this balancing act being performed by discounters, apparel still accounts for a robust portion of the sales volume.

Advice from Kurt Salmon Associates, retail analysts, is not innovative, but still holds true. "The ability to interpret new fashions, and make fit and value the differentiating factors will again be the major components of effective merchandising in women's wear next year."

***Jamesway, Matawan, N.J.:** The current trend for women's clothing is upbeat and comfortable—both in styling and fabric.*

Men's Wear Branded for Better Sales Volume

An emphasis on casual looks and the invasion of brands into discount retailing helped propel the men's wear category at the nation's discount stores.

From a fashion perspective, forecasters are quick to report there has been more going on in the men's market than in women's. National brand names and the quality that goes with them were substantially the reason for the huge success. McGregor, Brittania, Wrangler and Bugle Boy are only a few of the names that draw customers into the store. This gradual turnover is attributed to discounters trying to upscale with brand names , as well as the increasing incidence of private label names at the few remaining national department stores.

In addition, the shop-within-a-store concept got a big play in men's wear. McGregor and Brittania each experimented with their own concept departments. McGregor successfully won over retailers such as Jamesway, Pamida and Stuarts with its 600-square-foot shops. Wrangler is in the testing stage with this concept. In addition, Sasson, Gitano, Reed st. James and Lightning Bolt tried varying degrees of their own style shops.

Casual looks, and especially activewear, remains the driving force in the men's market. Golf shirts, sweaters and sweatshirts and pants are the items most readily merchandised at discount retailers. Surprisingly, in what would seem more of a women's wear trend, fashion items were doing better than basics overall.

Fashion jeans incorporating fashion finishes such as acid or stone washes and colorful sweaters are doing better than the average five-pocket jeans. Denim has been weak across the board in all markets. The only basics that continues to do well are underwear and socks. According to a report by Kurt Salmon Associates (KSA), analysts, name brand underwear—Hanes, BVD, Fruit of the Loom, as well as licensed brands—showed a 3 percent sales increase for 1989, second only to activewear.

Even at specialty stores such as S & K and NBO, which are known for their suit selections, display presentations have been designed with a younger, more casual man in mind. In the process, these stores have also upgraded the merchandise.

In general, many discounters have made the men's area more sophisticated. The new look of these stores comes with a higher price tag, however.

NBO introduced a new prototype recently using a brighter color scheme and extensive graphics. NBO claims that its new prototype signaled the store was "upgraded but not upscaled," with price points remaining about the same as in its other stores. However, Valentino and Tommy Hilfiger were among the designer labels that found their way into the store. In general, NBO had trendy merchandise, such as earth-colored shirts, baggier pants and collection-oriented lines featured in new chrome displays.

Ross Stores introduced "Attitudes for Him," its young men's department, in a new prototype introduced last year. Ross' aim to upgrade its men's wear led to further departmentalization. Within the men's area, it featured a "Locker Room," for college and professional team activewear and athletic apparel. In the same area, the retailer also opened a "Leather Shop." This brought higher price points into this store as well. Prices were as high as $225 for a short bomber jacket; $235 for a leather coat.

S & K jumped on the brand express and increased the labels it sold. In 1989 it debuted a "Best Value in America" program, where Deansgate suits and blazers were offered at fixed, "low everyday prices." The firm was successful with this approach, opening 19 stores during the year.

Sears also gave its men's wear department a needed lift. It emphasized national brands with its new prototype. More than 40 percent of the merchandise is devoted to brands. Video monitors were part of the new, glitzier display. The change also meant a readjustment in the merchandising mix. Standard discount brands such as McGregor and Campus were bid adieu. Higher-end brands such as John Weitz and Champion came on board.

According to KSA, discounters capture about 17 percent of the men's wear market as a whole. Discounters hope to increase this number with the better merchandise mixes and better merchandise in general.

An ominous cloud appearing on the horizon is the most recent sales report. The Market Research Corporation of America (MRCA) reported unit sales of men's wear in the first quarter of 1990 dropped 9 percent and dollar sales dropped 12 percent. Predictably, the casual categories—woven sport shirts, sweaters, knit sport shirts, socks, jeans and activewear—were six of the 13 items that did best in men's wear, according to the research firm.

Men's Wear $9.5 Billion

Full-Line Discounters	$6.8B
Catalogers	NA
Specialty Discounters	$2.7B
Full-Line Discount Store Productivity	
Sales	$6.8B
Sales Per Store	$866,242
Dept. Size	6,500 Sq. Ft.
Sales Per Sq. Ft.	$133.27
Turns	4.1
Initial Markup	46.5%
Gross Margin	33.4%

NA—Not available
Source: DSN *research*

Accessories, Jewelry Sparkle Basics

Fortunately for jewelry and accessory retailers, more women decided to stick to basics in clothing last year but played them up with fun and trendy accessories.

Jewelry and accessories have steadily increased their percentage of the soft lines market in the last few years. This category is especially prone to holiday selling periods, from Christmas to Grandparents' Day. It has managed to sustain a healthy momentum through the year.

Specialty retailers were quick to jump on the jewelry bandwagon. Accessory Place and Xtras, which have since merged, were among the first stores which cropped up exclusively devoted to this burgeoning market. Full-line discounters and apparel off-pricers were not far behind in realizing the importance of bracelets, bangles and beads. High sales per square foot, and the small amount of space actually required to make a jewelry department viable were among the major attractions.

In the last year, both full-line discounters and apparel specialty stores gave new importance to the category by either expanding the merchandise area or changing its placement within the store, all to capture the impulse buyer's attention.

Goldbro Jewelers, a catalog showroom chain based in Birmingham, Ala., recently opened an 11,000-square-foot specialty jewelry and giftware store in Huntsville, Ala. The chain considers jewelry "the key profits and expansion category of the '90s." It is not alone in that belief.

Though Burlington Coat Factory does not run its own jewelry department, it leases space to independent merchants. The company credits the department with attracting customers that may not otherwise come into the store.

Discounters such as K mart and Target moved part of the category into the apparel area, where shoppers could pick matching jewelry pieces, and where the possibilities of multiple sales were greater.

Others, like Ross Stores, put the jewelry and accessory departments front and center.

T.J. Maxx does run its own jewelry department and has been aggressive in creating a profitable merchandising center for the category. It has increased the number of jewelry departments in its store, lured by the amount of money to be made in a small space requirement, which amounts to two to three sportswear racks.

T.J. Maxx initially debuted jewelry departments in 120 of its 367 stores. By the end of this year, it plans to offer jewelry in close to 200 of its units.

The merchandising trends that emerged in this area are as diverse as the apparel offerings at these same stores.

(Continued on page 35)

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Discounters Claim Up to 40% Of '89 Children's Wear Market

From bike shorts to big shirts, children's wear departments often resemble mom and dad's closets in miniature.

Discounters are the dominant outlet for children's apparel, garnered anywhere from 30 percent to 40 percent of total children's wear sales.

However, the business got tougher for discounters in 1989. Heavy markdowns at department stores and the growth of mail order and other nontraditional distribution channels created a challenge for the established discounters in children's wear.

As in other markets, specialty stores are gaining ground in children's wear. Kids "R" Us, the apparel arm of Toys "R" Us, added 25 stores in 1989, ending the year with 137.

Montgomery Ward was also lured by this market. The chain has expanded its Kids Store specialty concept to seven units. In the next two years, 18 more are expected to open. While the original seven are freestanding stores, the retailer plans to open an adjacent Kids Store next to all future full-line Montgomery Ward units. This presents the best of both worlds—an established full-line discount department store name and the cachet of a contemporary specialty store.

Discounters without the advantage of freestanding units are trying to update the children's area in more modest way most noticeably through brands and better presentation.

Prange Way added four to eight rounders in 19 of its 25 stores for its children's wear merchandise. Caldor, though not changing the initial square footage, did use its space more effectively, adding a three-tier display in some cases where there was only one tier. Ames and Jamesway both created more distinct children's departments.

In most of these stores, Brittania and E.J. Gitano are leaders in boys' and girls' wear, respectively. Brands in general became more important measures of the children's department success. Lightning Bolt, French Toast and others found a home in discount stores. Even OshKosh B'Gosh, a formidable brand at the upper-end department store, realized the importance of the mass market, and finally began merchandising its products to Sears and JCPenney.

It may be a sign of things to come. Many retailers are increasing their price points for the children's area noting that higher-income shoppers that may have a stigma about shopping for themselves at K mart are more than willing to dress the kids there. Bradlees and Burlington Coat Factory both reported that a larger percentage of brands, and sometimes in a broader range of price points, were now the norm at their stores.

Quality and Fashion Expectations

Brands by definition tend toward higher price points, but retailers reported higher expectations of quality and fashion as well. Even a six-year-old can tell you what Gitano is.

Trends in children's wear mirror what is going on in junior and adult apparel. Beach lifestyle clothing, including jams, tanks and bike shorts created bright displays in sunny colors. Casual looks still dominate the market. This real thrust toward comfortable clothing has given new impetus to knitwear. Sweaters, leggings, sweatshirts and T-shirts are especially good sellers for discounters and are prime product targets for licensing. If there is a six-year-old that doesn't recognize the Gitano label, he will know each of the Teenage Mutant Ninja Turtles by their first names.

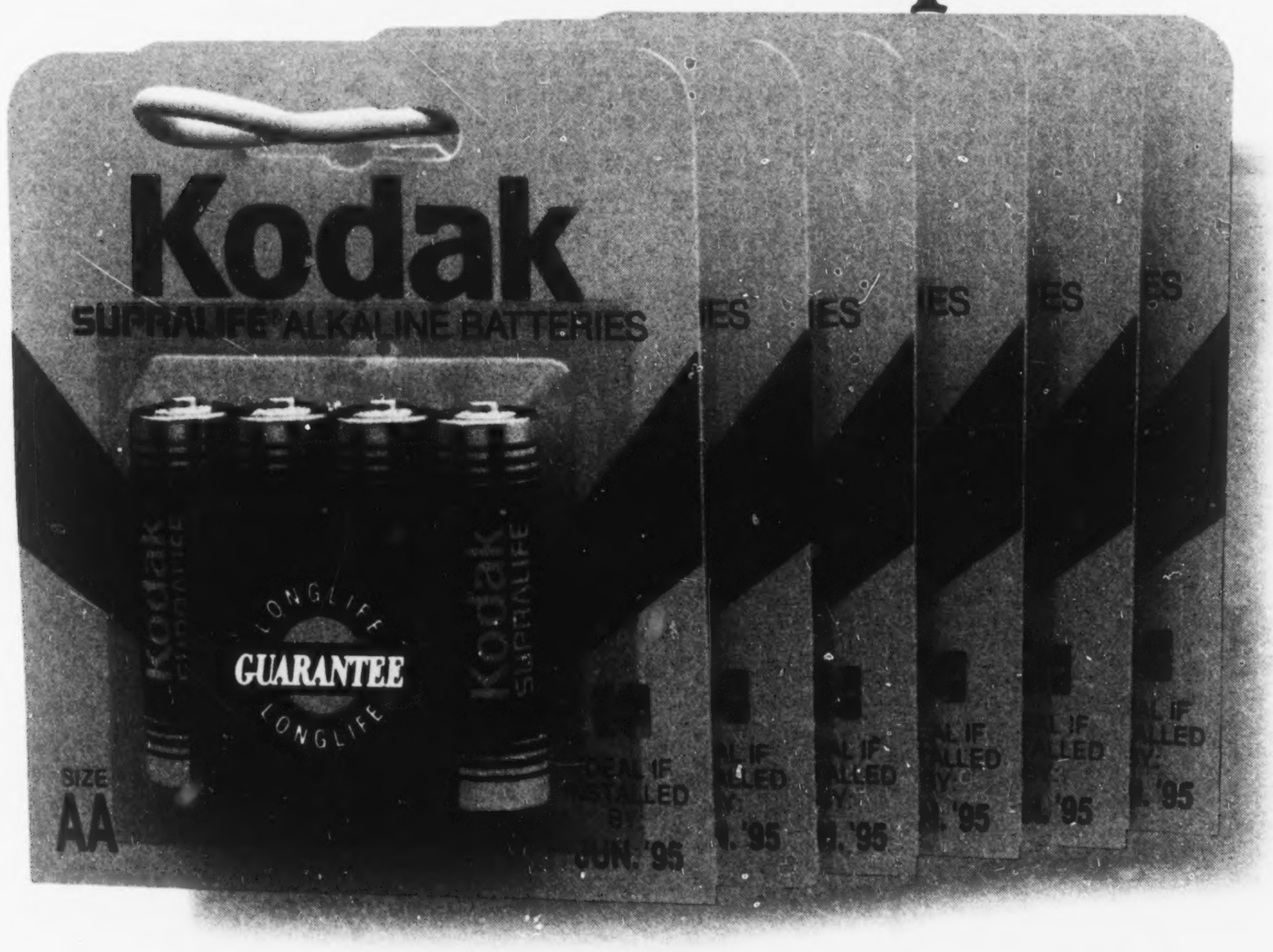
Interestingly enough, the solid, reliable blue jean was perhaps the worst performer in this market. Knit leggings, which have been the favorite in girls' bottoms for the last five years were the biggest culprits. In boys' wear, it was casual trouser styles, as well as sweatpants, that put a damper on jean sales.

One research firm reported a 2 percent decrease in children's jean sales. Girls' jeans did better. Thanks to MTV, singer Madonna has helped the blue jeans image by wearing them at a capri length. Discounters remain the leading distributor of children's jeans.

Children's Wear *$8.2 Billion*	
Full-Line Discounters	$7.1B
Catalogers	NA
Specialty Discounters	$1.1B
Full-Line Discount Store Productivity	
Sales	$7.1B
Sales Per Store	$904,459
Dept. Size	7,500 Sq. Ft.
Sales Per Sq. Ft.	$120.59
Turns	3.8
Initial Markup	44.5%
Gross Margin	30.5%

NA—not available. Source: DSN *research*

Rack 'em up.



Accessories, Jewelry Made Basics Fun, Trendy

(Continued from page 33)

Silver jewelry and ethnic looks were big sellers last season. Ethnic referred to anything from Indian or American to Guatamalan and Brazilian. Natural materials and earthy colors did best. In addition, the familiar hot pink and glow-in-the-dark lime green seen in beachwear, especially for juniors, also trickled down to the jewelry counter. The look of a perfume bottle as a charm at the end of a rope is also a continuing trend at retail.

Watches continue to be among the biggest movers on jewelry counters. With sporty watches now a wardrobe completer, everyone now needs more than one to make a fashion or style statement. For the young or young at heart, watch faces with pop art designs, planet earth and the phases of the moon continue to be big sellers. In addition to the nostalgia styles reminiscent of Indiana Jones, dressier Chanel looks and various Rolex look-alikes in gold and silver combinations are becoming prevalent at discounters.

In the watch category especially, some manufacturers have taken an apparel industry phenomena into the jewelry category: licensing.

Gitano, McGregor and Brittania are familiar names that are now mainstays in watches. In addition, licensed characters are also a selling point for watches. Disney may have set the standard with Mickey Mouse. Today, Snoopy and Garfield join licenses of the moment such as Batman and Dick Tracy in the watch display counters.

These character products also spurred an interest in children's jewelry. Packaged earring and pendant sets are among the popular holiday items in both children's and adult lines.

Trendy styles and the correct merchandising displays are the more important characteristic of this category, more so than price. In the last year, more stores have consciously upgraded their mix. The price points for the jewelry category, even at discounters, now go as high as $200.

Ross, for instance, was one discounter that brought in higher-priced items and expanded its jewelry counter.

In the prototype stores opened last year, fine jewelry and higher-end accessories helped upscale the look and purpose of the store. Department store-style glass cases housed 14K gold and pearl jewelry as well as national brand name watches such as Guess?, Monet and Bill Blass.

Rose's, the full-line discounter based in Henderson, N.C., opened a smaller prototype store last year, but jewelry was one of the categories it decided was important enough to emphasize. Among the merchandising adjustments it made in all of its 250 units was a better, more varied mix of jewelry vendors and suppliers, most notably in the all-important watch category. Timex basics were mixed with alternative trendy choices such as Casio and Armitron watches.

Jewelry* *$5.7 Billion	
Full-Line Discounters	$2.2B
Catalogers	$2.7B
Specialty Discounters	$0.8B
Full-Line Discount Store Productivity	
Sales	$2.2B
Sales Per Store	$280,255
Dept. Size	650 Sq. Ft.
Sales Per Sq. Ft.	$431.16
Turns	2.0
Initial Markup	52.2%
Gross Margin	42.9%

Source: DSN research

In addition, it made it tempting for customers to come back for more. Themes of costume jewelry were changed every six to 13 weeks. And to further entrance the buyer, much of the merchandise was taken out of enclosed glass cases and put on vendor-supplied counter-top displays. According to Rose's, an additional four to five salespeople were added to maintain and sell the new and improved department.

At the opposite of the end of the service spectrum—requiring no salesperson at all—is an interactive, computer terminal kiosk introduced by Pace Membership Warehouse. The terminals are supplied by Jan Bell Marketing, a large supplier of jewelry to the membership warehouse industry.

The terminals allow customers to view the jewelry available through a touch-screen computer. While 80 to 100 different products are merchandised at Pace, higher-priced special order merchandise can be viewed and ordered through the terminal. The computer then provides a receipt showing product specifics and prices which is brought to the Pace pick-up counter.

Sarah Coventry also used an interactive electronic system to help customers chose jewelry based on their face shape and coloring. The compact stand-alone fixture, in addition to the electronic marketing system, has built-in space for replacement inventory. It was initially placed in 2,000 Wal-Mart and K mart stores.

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Home Decor Fueled by Fashion

The desire of consumers to embellish their home environment remains a key source of discounter profit and sales dollars in non-electric housewares. This craving to spruce up the home is pushing sales into merchandise categories whose only function is to beautify.

ANNUAL REPORT PART II

The home products department is being recast at some chains as decor merchandise—items that are high in fashion but low in function—have flourished. Most notable are crafts and the subcategory, silk flowers. Both are intimately linked with the color themes of the home.

The craft category's home decor connection has resulted in expanded crafts departments at regional chains such as Harts, Columbus, Ohio, and Jamesway, Secaucus, N.J., as well as the profitability of burgeoning discount craft operations like those undertaken by variety store chains such as Ben Franklin and Winn's.

Jamesway has been experimenting with an enlarged department which is set off from the rest of the store with an awning. Harts is currently testing an enlarged crafts department and may increase the footage devoted to silk flowers. Silk flower volume escalated in response to an everyday low price in the category.

While the news in non-electric housewares has been color and style during the past several years, at least one category which is nearly devoid of fashion appeal is expected to rise in popularity during the 1990s. The one-two punch of "cocooning" and environmental awareness could inject life into steady home canning supplies sales.

Non-Electric Housewares Focus On Looks, Not On Functionality

These factors, coupled with an undertow of fear linked to dangerous produce (pesticides used on imported fruits and vegetables, alar on apples, health hazards linked to grocery store produce sprayers) is apt to drive consumers to their backyards for fresh foods in the '90s.

The push of environmentally safe products and the corresponding pull by consumers for these products led to turmoil last year in the trash bag industry. The bottom line, however, was that, in the absence of any governmental standards, no kind of degradability was determined to be safer than any other. Nonetheless, the trash bag controversy should lead to greater discretion by manufacturers in the environmental claims they make for the products.

Household chemical manufacturers are already introducing cleaners that contain more environmentally benign ingredients. Ready-to-assemble furniture manufacturers are re-evaluating the packing materials and cartons they use to ship furniture. Numerous other changes will undoubtedly buffet the housewares department in the years ahead.

Concern about the environment is one facet of a growing appreciation for the outdoor lifestyle. Outdoor dining is also cultivating an increased demand for melamine, acrylic and other unbreakable servingware including licensed juvenile serveware.

Private label tabletop assortments, whether imported or domestically sourced continued to gain momentum. The catalog showroom chains like Consumers Distributing and discounters, ranging from regionals such as Caldor and leading national chains like K mart, are trying to exploit the profit potential behind exclusive patterns. Even membership warehouse clubs such as Pace are working with individual vendors for exclusive tabletop patterns, at least for the first six to 12 months after the launch of a new design.

The jury is still out on how successful K mart's Martha Stewart line has been with consumers. The tabletop collection brought together various combinations of striped, solid and banded dinnerware in peach and aqua with complementary glassware, flatware and table linens.

Black and white were featured by virtually every specialty store and catalog showroom operator during 1989. Most will keep black and white as the main thrust of the decorative housewares area during 1990. Discounters will further experiment with lower priced adaptations of black and white.

Jewel tones are trickling down from department stores into specialty and catalog showrooms at present. By next year, upscale full-line discount department store shoppers will begin to show interest in accent pieces such as vases in these colors.

(Continued on page 41)

Non-Electrics $8.2 Billion	
Full-Line Discounters	$7.4B
Catalogers	$0.8B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$7.4B
Sales Per Store	$942,675
Dept. Size	6,000 Sq. Ft.
Sales Per Sq. Ft.	$157.11
Turns	3.3
Initial Markup	38.6%
Gross Margin	30.4%

NA — not available

Source: DSN research

Market Saturation Threatens Appliance Sales

Appliances, with the exception of those geared toward home health care and select others such as vacuum cleaners, were generally in the doldrums during 1989 due to market saturation of some products, a dearth of truly new products in many categories and contracted square footage at several stores.

Store space for electrics was generally undermined by consumer demand for home decor merchandise and retailers' decisions to capitalize on the comparatively high margins of an expanded decor assortment. Electric housewares and personal care assortments were pared down, frequently to a promotional model and a step-up model, with the exception of hot categories such as vacuum cleaners.

The direction of kitchen electrics is certain to take a few twists during the '90s following Conair's purchase of Cuisinarts, and Electrolux's acquisition of Regina last year. And, Mr. Coffee's recent initial public offering will also shake up the fray.

Vacuum cleaner sales climbed during 1989 as consumers traded up to multi-featured models, and traded out to multiple unit ownership; the mini-vac business triggered a new appreciation for different size vacuum cleaners for different cleaning jobs. Sales of mini-vacs, stick, upright and canister models will be helped this year by increased square footage at catalog showrooms, membership warehouse clubs and traditional full-line discounters.

Microwave oven sales continued to decline last year and discounters responded by cutting back space. Some chains reduced footage back to little more than a promotional endcap. Food processor sales were flat or falling, depending on the chain and region.

The food processor market is similar to those for microwave ovens and certain other appliances: currently it is primarily a replacement market and consumers went to specialty stores for guidance, and upgraded, full-feature models. The downsized miniprocessors were one segment with modest growth.

"Nobody has been making money during the past couple of years. There is room for compelling design and features to command higher price points," in food processors, according to Barbara Pape, Black & Decker's marketing manager over food preparation appliances.

Pape has forecasted a drop in sales during 1990 despite strong sales of the company's downsized Handy Shortcut Micro-Processor.

Lewis Mendelson, executive vp with Dazey Corp., forecasted that kitchen appliance sales will be increasingly an item business. The microwave oven made most traditional oven cooking accessories nearly obsolete.

"Products that are complementary to the microwave oven or perform tasks that the microwave cannot will grow in importance," he said. As examples, Mendelson cited the popularity of the company's smokeless broiler, cooker/fryer and waffle iron.

The personal care electrics department however, especially products that fall under the "feel good" umbrella such as massagers, dental care appliances and home spas are expected to remain on the same fast sales track enjoyed during the past 24 months: as high as 20 percent to 25 percent vol-

(Continued on page 41)

Personal Care $3.0 Billion	
Full-Line Discounters	$2.8B
Catalogers	$0.2B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$2.8B
Sales Per Store	$350,000
Dept. Size	750 Sq. Ft.
Sales Per Sq. Ft.	$466.60
Turns	3.5
Initial Markup	34.3%
Gross Margin	21.1%

Electrics $2.4 Billion	
Full-Line Discounters	$1.9B
Catalogers	$0.5B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$1.9B
Sales Per Store	$242,038
Dept. Size	800 Sq. Ft.
Sales Per Sq. Ft.	$302.55
Turns	3.5
Initial Markup	33.2%
Gross Margin	21.1%

NA — not available

Source: DSN research

Service, Minilabs Trigger Rebound in Category

Photo
$3.4 Billion

Full-Line Discounters	$3.1B
Catalogers	$0.3B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$3.1B
Sales Per Store	$394,904
Dept. Size	500 Sq. Ft.
Sales Per Sq. Ft.	$789.81
Turns	3.8
Initial Markup	25.9%
Gross Margin	18.0%

NA-not available

Source: DSN *research*

The photo category came back strong at discount stores in 1989, posting higher sales, gross margins and sales as a percentage of total revenues. What's unclear is why.

There were some contributing reasons for the increased activity, including new product introductions that stirred and expanded the size of the market, providing more opportunities for discounters.

The category has become stronger with Americans as a whole, perhaps due to the revolution in feature-laden, inexpensive automatic 35mm cameras and improved minilab performance. At the same time, though, more and more players have entered the market, so discounters' increased share of a slightly larger pie is doubly impressive.

Rising sales, not surprisingly, led to an increased focus on the category over the past year, and Wal-Mart and K mart, to name two, have made a renewed commitment to photo products. K mart, in its latest prototype, now merchandises 35mm cameras (including advanced SLR products) right next to camcorders. All models can be picked up and handled by customers (they're secured by a flexible wire), and the department is serviced by knowledgeable help who can explain features and benefits.

Wal-Mart, similarly, has upgraded its department, adding higher-end products like Minolta's Maxxum at very attractive prices. Its photo department, as seen in its vendor stores, is within the consumer electronics department, but is staffed separately. Again, knowledgeable sales help seem to be a key to increasing sales.

Photo has also become a featured product area for regional and local discount chains, and consumer electronics retailers who seem to be stepping up their involvement in the category as well.

Auchan, the Houston hypermarket operator, is a good example. Its department, adjacent to consumer electronics, features dedicated photo sales help, high-end products, a film wall, and ultra-competitive prices. According to the company, it will not only compete with local Houston prices, it will match national catalog and mail order prices, including shipping costs. To date, the company seems to have carved out a niche in advanced products by both discounting high-profile products like the Maxxum *and* providing semi-expert customer assistance.

The same holds true for San Francisco-based The Good Guys. President Ronald Unkefer credited at least part of the CE chain's record sales increases of the last half of 1989 to its aggressive entry into the photo market.

Office supply superstores also seem to be getting into the act, as have grocery stores, convenience stores and, of course, drug outlets.

Photo and camera, K mart Oak Park, Mich.: *Selection and knowledgeable service have boosted sales.* (DSN photos)

Despite the increased competition, the category continues to grow at full-line discounters, although not at levels recorded a decade ago when the first automatic 35mm cameras gained wide acceptance. The reason for the growth appears to be wider availability coupled with greater picture-taking value.

The new generation of autofocus cameras make virtually anyone a competent photographer, which has altered the photographic demographic forever. Where dad once kept a relatively sophisticated SLR in the closet for special occasions, now the average home probably contains several cameras, most pocket-sized or close, and more often than not operated by everyone in the family. And, more to the point, those cameras probably cost $50 or less. With opening price points for 35mm products as low as $10, a camera is no longer a luxury or something so special that it has to be kept under lock and key.

The result has been an explosion in picture taking and processing, the area where the real money in photo is made. Discounters have quickly applied the stapler/staples equation to the category: they're willing to sell both the camera and the film at marginal markups to attract the photofinishing business.

The quantum leap the photofinishers have made in simplifying their minilab operation, including speed, has played directly into the discounter's hands. Now discounters can operate their own photofinishing businesses staffed with minimum wage help and provide an important customer service.

The entry of Polaroid into the 35mm film market has had an effect. Although Polaroid's OneFilm has not made a profit yet, it has joined with Fuji and other brands to open up the film category, long Kodak's exclusive preserve at the mass market level. While Kodak still dominates the category handily, Fuji has increased its market share and last year showed a larger profit than its much larger competitor.

The result of increased competition has been, predictably, better value for consumers. Prices have held steady against inflation, and various value-added promotions (free extra frames, $1 off coupons, free gifts and so on) have made film purchases less painful for the average consumer.

In the future, camcorder and still video cameras will probably start to cut into 35mm sales. Camcorders, particularly 8mm and C-VHS (compact) formats, have made the technology as attractive as 35mm by making it both portable and easy-to-use. Still video resolution isn't great yet, but it will improve rapidly as the market heats up.

However, it is unlikely that either product will ever reach the low initial investment of 35mm. Keystone, for instance, now has a telephoto model on the market that will sell for under $40.

Women and children are becoming loyal 35mm users, and they will continue to value simplicity and reliability, both of which photo now delivers.

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Wal-Mart, Charlotte, N.C.: *Discounters have now brought their photofinishing operations in-house.*

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Chains Widen Offerings As Price Points Decline

Consumer electronics has become increasingly important to full-line discounters, who until recently had ceded the category to superstore specialists, at least at the component/advanced technology level. But in the past year, more discounters have become aggressive CE merchants.

As usual, Wal-Mart has led the way. After de-emphasizing the category in the mid-'80s, the chain has come back strongly, adding component compact disc players, fax machines, personal computers, hi-fi VCRs, and other advanced products. Of course, the mix still contains the usual run of rack systems and boomboxes, but the average ticket price at Wal-Mart has certainly skyrocketed.

K mart, too, particularly in its Oak Park, Mich., prototype, has stepped up its CE business. Newer stores and remodels now feature big-screen televisions, advanced VCRs, compact disc players and other relatively upscale electronics. Additionally, the chain has multiplied its software presentation, offering a vastly expanded selection of compact discs, prerecorded video and blank media.

And discounters aren't making these changes just to show that they're on top of the market. Sales are climbing in the category, and more important, so are profits.

A K mart store manager noted that while the large-screen television presentation makes a "statement" to customers, they sell too. "If they didn't sell, they'd be out of here," he said. Sales in that category are still slow, but the manager noted that they were picking up. "Consumers had to get used to us carrying them first," he explained.

One of the more interesting trends is the near-universal increase in full-price software. Until recently, the average discount store carried the top 20, a few standards, and a lot of $2.99 cut-outs. Now, K mart, Wal-Mart and Target, among others, have greatly increased their sku counts. Wal-Mart has even turned the CD/cassette business into a major television advertising thrust, featuring rising rap and heavy metal artists (who may or may not have penetrated the Top 20) as drawing cards.

A major trend in CE is one that is just beginning to establish itself in general merchandise discounters. And that, of course, is home office. While the category has only gained a toehold so far, buyers at the recent summer Consumer Electronics Show flooded the booths of home office vendors, looking for products that fit in with their business plans.

With the opening price point for fax machines crashing (to as low as $349 this summer, and possibly $299 by next year), the product has reached a price point discount customers are comfortable with. The same has already happened with compact disc players, which now retail in the $150 range.

And now full-scale tests of computers, generally one-box, easy-to-assemble systems, are underway at K mart, Wal-Mart, Target and many others, and personal copiers won't be far behind. The accessory business has taken off, and business-featured telephones are now a part of most discounters' mix.

The key to most of these products is that they must have a true consumer application; a truly professional home office or small office user will probably choose to shop an office specialty outlet or electronics superstore. But there are evidently large numbers

(Continued on page 47)

Consumer Electronics $14.7 Billion	
Full-Line Discounters	$6.7B
Catalogers	$1.0B
Specialty Discounters	$7.0B
Full-Line Discount Store Productivity	
Sales	$6.7B
Sales Per Store	$853,503
Dept. Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	$371.09
Turns	3.5
Initial Markup	30.0%
Gross Margin	16.5%

Source: DSN research

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Full-Liners Profit From Lower-Priced Fashion

The trend has become a landslide. For over three years, discounters and other value-driven mass merchandisers have been cutting into the department store and specialty home fashions business, and in 1989, they became the dominant market outlet for both basics and fashion domestics.

The key has been the development by leading mills of fashion-oriented products that, through thoughtful cost-cutting measures, can now sell at mass market prices. While no discounter has yet introduced a totally successful program, the growth of K mart's Martha Stewart presentation and Target's Country Estates program have been harbingers of what the discount home fashions department of the future will look like.

Discounters can thank, in part, the homogenization of American taste. What once was strictly regional (the Florida and Southwest looks, for instance) is now nearly universal. Southwestern can and does sell in the most traditional markets in the country, including hidebound New England. And with the country look finally starting to die, consumers are looking for something different, attractive and striking. Main beneficiaries so far have been Southwestern, French Country and formal men's wear looks.

The slowing of the country look has also opened the mass market to a wealth of exotic influences, from Greek country to Indian to Chinese. That trend has stimulated interest in home decorating. And in turn, that has led to trade-up buying, as consumers recognize added value in high-fashion and/or coordinated goods.

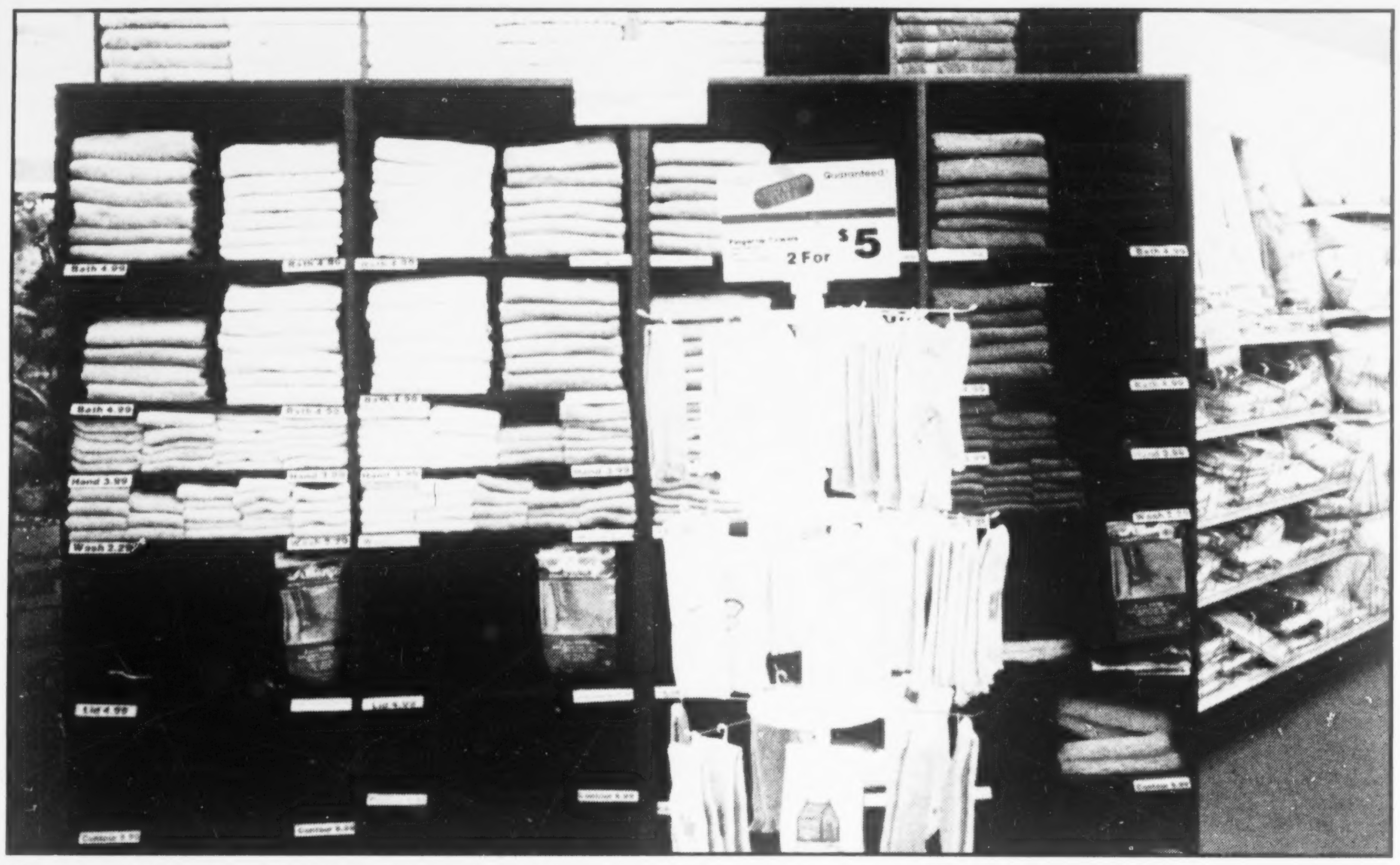
Domestics $6.1 Billion	
Full-Line Discounters	$4.6B
Catalogers	$0.3B
Specialty Discounters	$1.2B
Full-Line Discount Store Productivity	
Sales	$4.6B
Sales Per Store	$585,987
Dept. Size	4,000 Sq. Ft.
Sales Per Sq. Ft.	$146.50
Turns	2.5
Initial Markup	44.2%
Gross Margin	34.0%

Source: DSN research

Target's Country Estates program, which a year ago consisted of a group of good-but-not-great country patterns, has leaped forward in fashion orientation, adding fully coordinated Southwestern and French Country looks (from JPStevens) while cutting its less-inspiring country patterns. That brings the program into line with the chain's overall fashion presentation, which has leaned heavily toward Southwestern and other contemporary looks.

Target has also beefed up the footage dedicated to Country Estates, doubling its 20 foot run to form a Country Estates aisle. The same mini-boutique approach has been successful in the toy and apparel departments.

Wal-Mart, which is now the most aggressive of discounting's Big 3, is rolling out a modified version of its successful vendor store domestics department, developed by Cannon. Featuring a department-store-like towel wall, half-bed coordinated displays, nearly double the space formerly reserved for domestics, and a sharp increase in fashion orientation, the departments have reportedly been much more productive than older versions. While Wal-Mart's customer base is probably a bit less adventurous than Target's relatively cosmopolitan shoppers, more sophisticated looks have virtually overrun the departments.



***Towel walls and embellished** merchandise came early to Fishers Big Wheel.* (DSN photo)

K mart's Martha Stewart program, which revolves around the Stewart sheet and comforter patterns, is establishing itself with the chain's customers, chairman Joseph Antonini noted at the company's annual meeting. Despite rumors to the contrary (and the recent resignation of divisional merchandise manager Marilyn Gill, who oversaw the Martha Stewart program), Antonini contended that the program met its goals after a slow start.

The net result, to date, is that the larger chains may be stealing the thunder of regional operators like Fishers Big Wheel and Prange Way, which have used the category to set themselves apart from their larger competitors. Big Wheel, for instance, developed its trend-setting domestics department some three years ago, adding a towel wall, coordinated selling and a heavy accent on embroidered and embellished products. The company also moved the department to the front of the store, a strategy that had been successful for then-president Stan Brenner at Prange Way, his former employer.

Sears and Ward have moved their name-brand, high-fashion domestics departments into high gear, with Sears experimenting with stand-alone versions to supplement its big store version. Ward, with its new "mini-mall" approach, dedicates the back of its stores to home fashions, accentuating bedding, window treatments and bath products, with smaller selections of housewares and furniture.

The other big winner in channels of distribution is the specialty store segment. Chains like Linen Supermarket, Pacific Linen, Stroud's and Linens & Things have increased their store counts rapidly over the past year, and most have become very aggressive in both price and fashion orientation.

Warehouse clubs have maintained a steady basics business, and their low sku count probably will keep them out of the high-fashion business, despite their ability to deliver name brands at ultra-low prices. The clubs must, by necessity, carry generic-type products for their prime customer base, which includes small motels, nursing homes, day care centers and other institutional consumers. That doesn't leave much room to maneuver in the often risky fashion business.

Department stores appear to be the long-term losers in the redistribution of the home fashions business. While there will always be a department store shopper who is willing to pay more for high-end products, department stores will have to fight harder for the fashion dollar. The very exclusivity department stores have traded in has been eroded badly in the last few years. For instance, embellished towels are now as commonplace at discount stores as at department stores. As the discount market continues to gather steam, more and more products, once the exclusive province of full-price retailers, will be made available to off-pricers.

If the fashion is in the same ballpark, it's probable that all but the most dedicated department store shoppers will defect to discounters and other off-pricers, particularly specialty stores like Pacific Linen, which offer department store amenities at discount store prices.

Chains Widen Offerings As Price Points Decline

(Continued from page 45)

of consumers who feel comfortable making these purchases at their neighborhood discount store.

And, of course, more rural discounters don't even have to worry about competition; they're often the only off-price game in town.

Along with home office, discounters are now looking at the cellular telephone business. Because of the peculiar nature of the business (the phones are normally sold at a loss with a rebate from the service provider making up the difference), there's a lot of hesitation among larger chains. Customers are frequently "hijacked" as they leave the store by freelancers who offer the consumer an instant rebate if they'll disconnect their newly acquired telephone number and sign on with the hijacker. The retailer, after investing time and effort in the sale, will then show a loss on its work.

However, vendors at CES reported that discounters see immense potential for the category, and are willing to jump through a few hoops to establish themselves as bona fide cellular sellers. So there will be a strong push in the category in the upcoming year.

That should hold true for a lot of products, particularly component audio, advanced televisions and computers. The CE category, after years of decline, seems to be coming back strongly, and with other product areas in decline, discounters will throw their resources at categories that offer them a better return on their investment.

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Home Office Spurs Stationery

Chains Stock Up on Higher-End Merchandise, Expand Offerings

ANNUAL REPORT PART II

No longer a black and white business, stationery departments throughout the discount store industry are painting the business red.

Fashion colors, particularly neon, licensed characters, improved greeting card displays, and office quality supplies are sweeping through discounter's stationery departments at daunting speed, taking advantage of customers willingness to pay more for products with perceived quality.

No longer just a seasonal business, stationery is a year-round seller delivering substantial sales and profits to discounters.

Driving the business in recent years has been the exploding home office sector that has affected sku mix, price points and merchandise presentations at the discount department store level. The apparel and toy businesses also have had their effect on the stationery business, expanding the parameters for licensed products and color, particularly neon.

Overall, discounters have found that their customers are willing to spend more for better quality products, licensed goods and fashion-oriented merchandise, if they perceive improved quality, and report they will seek out more of these products for their everyday offerings.

Discount store retailers, in ever increasing numbers, started expanding their office stationery selections last year as a way of participating in the office supply business. Several avenues were selected, among them multipacks, bulk displays, some office-grade products, and sharper pricing, all to appeal to homebound office workers.

Initially, discounters were leery of participating in the home office business, particularly last year when paper prices were rising on commodity goods, but the advantage for incremental sales has changed that for many of them, particularly Stuarts.

Last year was a "super fantastic year" for Stuarts, said Linda Harrison, stationery buyer for the 23-store chain based in Franklin, Mass. During the year, Harrison implemented a warehouse office/stationery program that Bradlees has since started testing.

While Stuarts did not create the warehouse office stationery program to compete directly with the office supply superstores or warehouse clubs, the program was created to appeal to the at-home user whose office supply needs may be satisfied with fewer sku's in a smaller environment. At first, 25 of the fastest moving office stationery sku's were selected for the special program. Now Stuarts' offers 30 sku's with warehouse pricing.

Stuarts' program, and now Bradlees', may be only the first entries by discount department stores to compete with the office superstores. But they aren't alone. Many discounters, including K mart, Wal-Mart, Hills, Ames and Target have created home office departments in space culled from social stationery to answer the battle cry of the superstores.

SCHOOL ZONE
BACK TO
83¢

Wal-Mart, Harrison, Ark.: *Bulk displays of notebook paper represent one way for full-line discounters to tap into the surging stationery business.* (DSN photo)

Although the office superstores are geared to service small-to mid-sized businesses, there is some overlap among all of the retail players and many discounters aim to attract sales from the small business user, the home-based worker and the stationery purchaser.

Sales opportunities for home office stationery products should continue increasing as business formations explode. Last year alone, 21.7 percent of the nation's labor force worked at home and spent $2.7 billion on home office accessory products such as computer paper, appointment books and telephone answering pads, excluding furniture and electronic equipment.

Back-to-school stationery and home office supplies through the mass market channel have grown remarkably in the past few years as evidenced by the record attendance at February's Back-To-School Merchandise Show and the large number of office stationery products that were on display. The show boasted 11,168 registered buyers for the three-day event at New York's Jacob Javits Convention Center. In addition, the *DSN*-sponsored early morning seminar at the show, this year entitled, "Update '90: Projecting Trends and Developments Over the Next Decade" drew more than 200 people, also a record crowd.

Some of the trends identified during the seminar, and still valid today, included fashion's stronger impact on the category; the possibililty of creating sales opportunities with college related materials in college towns; the willingness of customers to trade up to higher-grade products if the perceived value is present; and the willingness of retailers to use distributors.

Some of the new products at the show included the new greeting cards displays that feature more cards including a greater representation of non-occasion greeting cards and religious themes, hot categories for greeting card retailers; more recyclable paper products for home and office; and 3M's pre-cut tape strip and label protector, Post-It Notes facsimile transmittal memo paper and new red and silver packaging.

Licensed products were also in huge supply as were neon-encrusted products in just about every category.

Despite the popularity of both licensed properties and neon, buyers were cautious about buying too much of each, explaining they were being careful not to overbuy for what could be short-lived phenomenons.

Licensing, which generally runs in cycles, has been enjoying a renaissance the last few years. Licensed properties have been growing at between 5 percent and 7 percent annually. But last year, licensed products grew by 8 percent over 1988 to $6.8 billion at retail, according to the 14th Annual Licensing Industry Survey released by The Licensing Letter, Scottsdale, Ariz. Licensed stationery goods, which is part of the survey's publishing/stationery category, accounted for 10.5 percent of all licensed product sales in the $64.6 billion business. Some of the hot licensing characters in stationery include Mickey Mouse and other Disney characters, Sesame Street, Peanuts, Garfield, Ziggy and Holly Hobbie. Dick Tracy and Teenage Mutant Ninja Turtles Corporate licenses such as Coca-Cola also are important in this category.

Stationery $4.8 Billion	
Full-Line Discounters	$3.0B
Catalogers	NA
Specialty Discounters	$1.8B
Full-Line Discount Store Productivity	
Sales	$3.0B
Sales Per Store	$382,166
Dept. Size	2,000 Sq. Ft.
Sales Per Sq. Ft.	$191.08
Turns	4.3
Initial Markup	47.1%
Gross Margin	42.0%

NA—not available

Source: DSN *research*

What's different about licensed properties this year than in the past is retailers' greater reliance on classic characters. While "hot" properties still command a lot of media attention and generate quick sales, many are seen as flashes-in-the-pan and not reliable sellers day-after-day. Since sources agree that licensed properties account for about 10 percent of a company's total department, composing a program that will return steady sales is important.

Among the many new programs released this year are Holly Hobbie by American Greetings, a mainstay for the greeting card company, Paddington Bear, Tom and Jerry cartoon characters and Little Golden Book Land characters by Sangamon, and Alvin and the Chipmunks by Ambassador. Also at Ambassador, Star Trek and Disney's Winnie the Pooh are scheduled to be launched in 1991, according to Susan Meek, manager of licensing acquisitions for Hallmark Properties, which is the licensing arm of Hallmark and Ambassador.

Mead and Stuart Hall, stationery manufacturers with strong back-to-school businesses, report they too are concentrating on the classic characters.

At the 1990 B-T-S show Mead introduced Looney Tunes characters including Bugs Bunny and Tweetie Bird. Mead also is concentrating a lot of energy on its own internally generated programs, including Super Shades. At Stuart Hall, Lisa Frank, the artist and designer, is being spotlighted as are Sesame Street and Holly Hobbie.

'Green' Products Beckon As Higher-Ticket Items

New products that environmental worries have spawned, such as can crushers and mulching mowers, promise to add a bit of sparkle this year to the hardware and lawn and garden categories.

Otherwise, hard lines merchandisers still are looking for the smash hits that have eluded them for several years.

Lacking a runaway success category, hardware merchandisers are emphasizing basics, controlling inventory by culling, promoting prices aggressively, seeking out better value buys, and concentrating on department organization and being in stock.

And a merchandising study from the National Retail Hardware Association emphasizes anew the need for fundamentals of merchandising, proper end capping, cross-merchandising and use of dump bins.

"I wish I could tell you about eight categories that were blowing out the door, but I can't," said Frank Schutzman, hardware buyer for Fisher's Big Wheel, New Castle, Pa. "I don't see anything hot, except for a can crusher for recycling."

Water filters were supposed to be a smash hit two years ago, Schutzman said, but they are proving to be a slow build category, rather than an instant success.

Fisher's Big Wheel is attempting to make special buys that "will shove value to customers," Schutzman said.

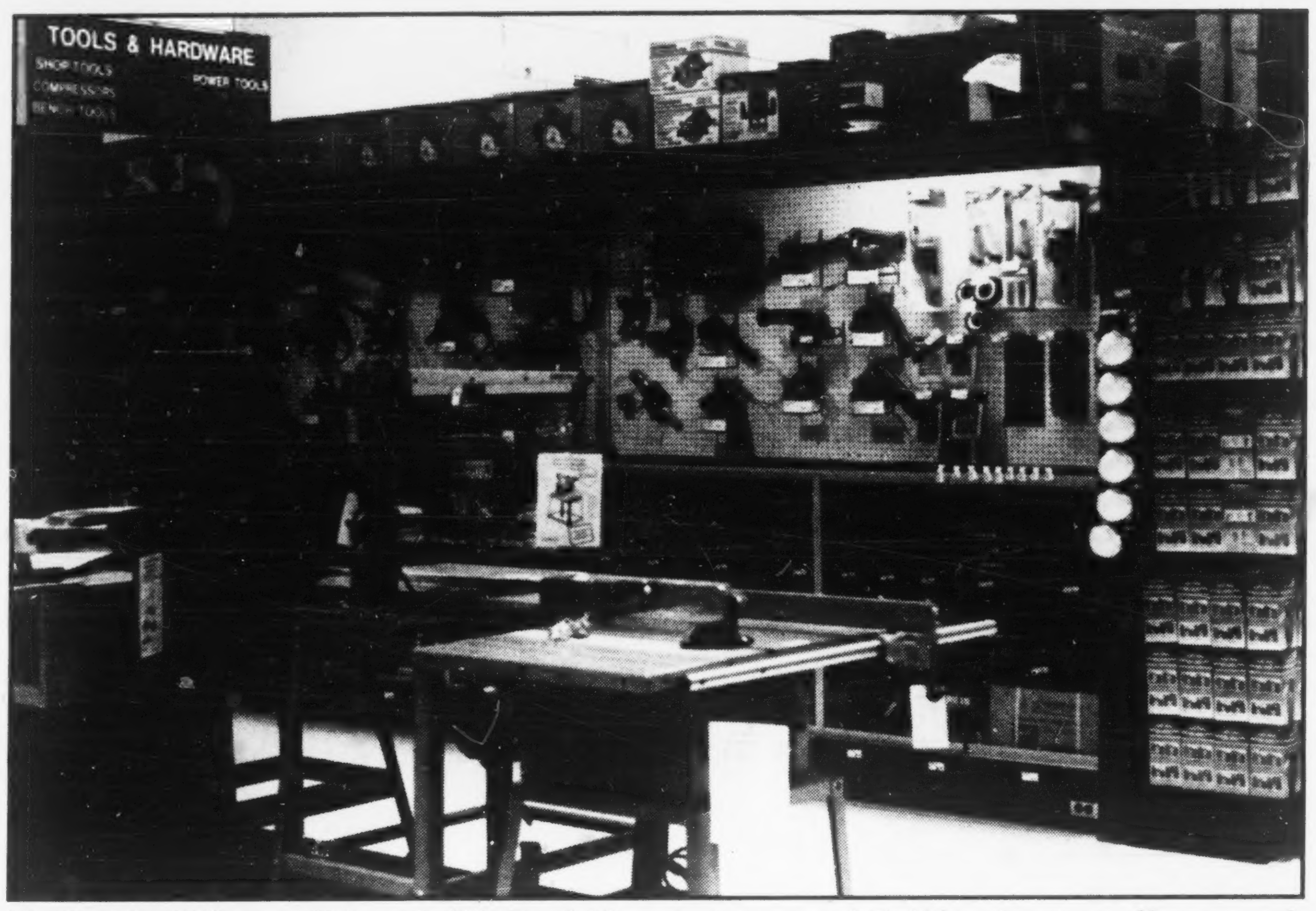
Lacking any hot product category, Fisher's "is hot to get better management," he said. The chain is reviewing every product in an attempt to decrease inventory and get better turns. Schutzman said the reduction will come by eliminating an item here and there, rather than entire categories.

One Northeastern chain is approaching hardware merchandising through better efforts to stay in stock and more aggressive price promotions, the chain's divisional merchandise manager said. A new aisle merchandiser from Royal Tools is bolstering hand tool sales, he said.

Bradlees also is using the Royal merchandiser, a series of open wooden bins on each side of a freestanding unit. Stanley is another of several vendors that provide tool bins as an alternative to peg boarding.

The chain recently expanded its Stanley tool line and "has done very well" with them on ad, the dmm said.

Father's Day was "a little disappointing," he said. He attributed a decline to the lack of newness of products, as well as lessened vendor promotion of the holiday.



Tools, Fred Meyer, Chico, Calif: *Fred Meyer's inaugural California store offers a variety of power tools—Skil, Makita and Black & Decker—at a wide range of price points.*

Hardware*
$7.1 Billion

Full-Line Discounters	$7.0B
Catalogers	$0.1B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$7.0B
Sales Per Store	$891,720
Dept. Size	4,500 Sq. Ft.
Sales Per Sq. Ft.	$198.16
Turns	2.5
Initial Markup	40.0%
Gross Margin	32.0%

**Includes paint*
NA—not available
Source: DSN research

In one exception, Black & Decker cordless tools did well for Father's Day, the dmm said, such as cordless screwdrivers at $14.99 and the cordless ratchet, introduced last year, at $39.99. Prices on motion detector light units from Intellectron dropped 15 percent more the past year to $14.99 on ad, $19.99 everyday. The floodlight bulbs sold separately now produce more profit that the motion detector unit itself, he said.

Environmental products will have "a big play in the future," the dmm predicted, even though his chain has yet to develop a strategy for merchandising such products as composters and the recycling bins that Tucker Housewares will introduce at the Hardware Show in Chicago next month.

"I'd love to see killer items come along, so we can make some money for a couple of years," the dmm said.

Meanwhile, the chain is attempting to keep its hardware departments, which aren't planogrammed, "as organized as you can be in hardware."

Indicating the potential for environmental products, Tucker Housewares is introducing its five-sku line of recycling products that would sell for a total of $74 at suggested retails. They are: 12-, 16- and 20-gallon recycling bins, a metal rack for newspapers and a folding hand cart for hauling bins and bundles to the curb.

Their bulk suggests that the hardware department might be better able to accommodate the line than housewares.

Rally
Rally
Rally

Lawnmowers, Caldor, Bricktown, N.J.: *Traditional power mowers may become a relic if environmentally friendlier mulching mowers catch on.* (DSN photos)

Mulching mowers and organic fertilizers and pesticides also represent new opportunities for merchandising around higher tickets.

Mulching mowers, which grind grass clippings and blow them into the lawn to rot in place, sell for at least one-third more than conventional mowers. Nonetheless, consumers are accepting them because of the convenience of not having to bag grass clippings and an ever lengthening list of localities that ban grass clippings from their dumps.

Towns in at least 32 states have such ordinances on their books. The latest is Chicago, which banned grass clippings, effective July 1, sending homeowners scurrying for alternatives.

As an indication of the potential for walk-behind mulching mowers, Sears, Roebuck & Co., Chicago, ordered 3,000 of its Craftsmen private label mulchers for 1990, the first season. It then quickly ordered 10,000 more.

Since mulching grass clippings puts nitrogen back into the soil, mulching mowers threaten to cut into lawn fertilizer sales by an, as yet, undetermined percentage.

The growing number of bans on yard waste also could promote sales of other equipment to deal with it, such as chippers and leaf shredders, as well as composting starters and composting bins.

Another new environmental product is Nature's Choice, a line of organic lawn and garden fertilizers from Northrup/King, Minneapolis. Made of composted chicken manure, Nature's Choice will cost consumers at least twice as much as chemical fertilizers to buy the same amount of plant nutrition.

Northrup/King, which got out of chemical fertilizers and pesticides five years ago, will introduce the line at Expo '90, the lawn and garden show in Louisville at the end of the month.

Nature's Choice would get a powerful boost in California, if an initiative measure on the November ballot passes. The measure would ban just about every product that one major vendor makes and prompt makers of garden chemicals to spend heavily on research and development for environmentally safe products or to acquire subsidiaries that produce them.

Safer, a leader in organic pesticide soaps, has gotten so many buyout offers that it put itself on the auction block last month in order to find out how much the company could fetch.

Environmentally safe products could account for anywhere from 40 percent to 80 percent of the market within five years, predicted Dr. Chuck Greenidge, president of Greenidge & Associates, a consulting firm in Evergreen, Colo.

With threatened restrictions on garden chemicals, discounters may no longer be able to acquire homogeneous lines from a single vendor, Greenidge warned. If that happens, they may have to step in with their own merchandising to teach customers how to use organics.

Wal-Mart is cross-merchandising another environmental product, the Glacier Pure water filtration jug, in hardware, as well as housewares.

In another move, Wal-Mart is upgrading its hand tool offerings while reducing its reliance on imports. It has taken on a 10-sku line of Diamond brand adjustable wrenches and pliers from Triangle Tools at twice the price of the imports it still offers.

If discounters need any reminder about the importance of merchandising a staid category, a new study sponsored by the National Retail Hardware Association provides statistical evidence.

In a 90-day study last year of tried and true merchandising techniques, the study found that proper endcapping, including a price sign, boosts sales by 229 percent, that cross-merchandising increases sales by 67 percent and that dump bins raise sales by 43 percent.

Although such merchandising techniques are old hat to discounters, "the magnitude and power of the sales increases is the real news," said Brad Farnsworth, president of the Farnsworth Group that conducted the study at 55 hardware stores and home centers. The findings are directly applicable to discounters, he said.

Special Report

Wholesale Clubs Consolidate

The Top 11 clubs account for 97% of industry sales, which are projected to mushroom 25% in '90

More wholesale clubs are adding fresh meat departments to their mixes. Primary customers are small restaurateurs, caterers, and people who cook for schools, nursing homes, fire houses, churches, etc.

The membership warehouse club industry is continuing to consolidate.

Last year, Buyers Club and American Wholesale closed down operations, while K mart acquired Pace. This year, K mart will merge its existing nine-unit Makro membership club chain into the 47-unit Pace group.

The move will make K mart the owner of the wholesale club industry's fourth-largest chain in dollar volume.

In this trade class, the four largest chains generate 82 percent of volume, and the top 11 ring up a whopping 97 percent of all sales.

> Industry insiders see a no-holds-barred battle brewing for dominance in the highly under-stored Northeast market.

The number one and two chains, which are virtually running neck and neck for first place, are Sam's, owned by Wal-Mart, and The Price Club, founded by Sol Price and headquartered in San Diego.

According to *Discount Store News*' most recent survey, Price Club, with its 44 units, narrowly edged out Sam's with its 123 units for the rank of number one highest volume membership chain in 1989.

Price Club had a 21 percent sales increase to $4.901 billion, while Sam's sprouted 27 percent to $4.84 billion.

Third place Costco, sporting 62 stores, did $2.84 billion in sales last

Who's Who In Membership Warehouse Clubs
(Top 11 chains by dollar volume: millions)

Chain/co. hdqts.	1989 sales	% chng	1989 units	% chng
Price Club, San Diego	$4,901	20.9%	44	7.3%
Sam's Wholesale Club, Bentonville, Ark.	4,840	26.4	123	17.1
Costco, Kirkland, Wash.	2,944	48.0	62	24.0
Pace, Aurora, Colo.	1,710	34.5	47	20.5
B.J.'s, Natick, Mass.	985	20.5	23	4.5
Price Savers, Salt Lake City	685	24.3	14	7.7
The Wholesale Club, Indianapolis	570	41.7	23	27.0
Makro, Cincinnati	270	8.0	9	5.0
Warehouse Club, Skokie, Ill.	267	7.2	12	0.0
Club Wholesale, Boise, Idaho	70	7.7	5	0.0
Wholesale Depot, + Natick, Mass.	6	—	2	—

First store opened in October 1989; second opened in November 1989

Source: Discount Store News

Membership Warehouse Clubs
(Sales and unit growth)

Year	$ sales (billions)	Units
1984	$ 2.4	79
1985	4.5	137
1986	8.2	228
1987	10.1	271
1988	13.7	316
1989	17.8	364
1990*	22.0	434

**-Projected*

Source: Discount Store News

Wholesale Clubs: Average Sales/Store Estimates

Chain	Estimated average/ store 1989 sales (millions)
Price Club	$111
Price Savers	49
Costco	47
B.J.'s	43
Sam's	39
Pace	36
Makro	30
The Wholesale Club	25
Warehouse Club	22
Club Wholesale	14

Source: Discount Store News

year, up a whopping 48 percent over the prior year.

K mart's Pace is in fourth place, with 47 stores which tallied $1.71 billion in sales last year. K mart will be converting its nine Makros into Paces, which by mid-year should give Pace 56 clubs and loft it way past the $2 billion-a-year sales mark. Pace is projected to end the year with 66 stores, and possibly $2.8 billion in sales.

Costco is projected to end the year with 72 stores, which could possibly bring its sales close to $4 billion by year's end.

Sam's is shooting for 148 stores by year's end, and Price Club is aiming for 54.

Even if Sam's does ultimately overtake Price Club as indisputably the nation's highest-volume membership chain, it can't beat Price Club's record as the chain with the industry's highest average per store sales. The 44 stores Price Club had in operation by the end of 1989 generated an average $111 million dollars each.

Sam's 123 stores, on the other hand, generated an estimated $39 million apiece in calendar 1989, according to *Discount Store News* estimates. Costco's clubs averaged $47 million apiece, and Pace $36 million.

As *Discount Store News* pointed out, the rapid growth of the major chains, especially those six with the highest dollar sales volume, is rapidly shutting out opportunities for other companies to start up.

Last year there was only one start up in the industry—Natick, Mass.-based Wholesaler Depot—which opened two clubs in the last quarter of 1989. Wholesale Depot is projecting it will add four more units this year.

Sales should boom

Discount Store News is also projecting that the industry's sales will continue to boom this year, by at least 25 percent to over $22 billion. *DSN* also estimates that store counts should also jump 19 percent, as an estimated 70 more clubs open.

As the industry grows, *DSN* sees a no-holds-barred battle brewing for dominance in the highly under-stored Northeast market. The Northeast, which only housed about 27 stores at the beginning of 1990, should have triple that number by the end of 1991, *DSN* estimates.

At the same time, the wholesale club industry is continuing to refine its product mix and merchandising strategies. There is a continued trend towards diversification, as clubs add a variety of service departments such as optical care, fresh meat, expanded produce, and even scratch bakeries.

Currently, *DSN* reports, home delivery for bulky items and long distance phone service are also becoming more and more common in the club industry.

Cleaners in extra-large bulk packages sell exceptionally well in wholesale clubs. They're used in businesses, schools, and offices as well as in homes.

Groceries Draw Traffic For Warehouse Clubs

Grocery product sales, including frozen foods and perishables, rose nearly 30 percent on a same-store basis in 1989, many warehouse club operators told *FM*.

Some examples:

- At 65-unit Costco, based in Seattle, grocery sales rose more than 25 percent same-store, and turned more than 18 times, said Stan McMurray, senior vp-foods, sundries, and perishables.
- At 23-unit The Wholesale Club, based in Indianapolis, president Jim Burke said his grocery sales are exceeding 20 percent increases in same-unit sales "by a fair amount."
- At 56-unit Pace, based in Colorado, grocery sales growth exceeded the 17 percent same-store gains of the previous year, said vp-food merchandising Dan Doerflein.

> *Groceries appeal to the broadest customer base, and as frequently replenished items, bring shoppers back frequently.*

At Costco, McMurray attributed much of the growth to Costco's constant efforts to fine tune category merchandising. Two and a half years ago, Costco began testing an expanded perishables department that included fresh meat, fresh fish, specially wrapped produce and scratch bakeries, and McMurray said the concept has proven very viable for the chain.

Costco's meat is all USDA choice or prime that comes to the store in primal cuts. Some stores have as many as 20 butchers work-

Men, who generate a big portion of wholesale club sales, aren't shopping for the family. They're usually buying for resale in their own businesses.

ing in the open, cutting and packaging the meat in front of customers. The scratch bakery is also open to view.

Costco hopes to have the departments in all stores by this time next year. Currently, perishables are in about 48 stores.

"Right now, we're getting 8 percent of our total sales from perishables in the stores that have the department. We think we can get it up to 10 percent pretty fast.

"It's not only helped us grow the grocery side of our business, but it's helped the rest of our warehouse as well. We're estimating that for every $1 our customers are spending on perishables, they're spending another $2 somewhere else in the store. Perishables also brings our customers back more often."

Bridge packing is an important sales aid for Costco, and McMurray spends a lot of time working with manufacturers to try and find that perfect "bridge" between a package that is large enough for resale customers but also small enough not to go to waste for at-home users.

Scott Paper with its toilet tissues and P&G with many of its consumer brands have been very cooperative in this area, but McMurray said just about every major company is in the process of developing special packages for warehouse stores.

Suppliers are complying

"Companies are more cooperative these days because they're at the point now of understanding what we're after."

Pet food is another important category for Costco. Because veterinarians and businessmen who need guard dogs are key customers, bridge items work perfectly in this category.

Costco likes to use a special 25-lb. pack for dry cat food as well as 50 lbs. on dry dog food, and it stocks both popular mass brands like Purina as well as special blends formulated for breeders who have special dietary requirements.

Packaging for spices

Bridge packaging is also found in spices. Costco's assortment ranges from a 1-lb. pepper jar all the way up to 5-lb. tins.

Costco also stocks a popular four pack bridge-box of bagged popcorn. When the box is open, the 12.5-lb. individual packages can be taken home for personal consumption or resold in small stores or in theatre concessions.

Because of its many food service customers, frozen foods are also a strong category for Costco.

McMurray said frozen foods currently generate about 8 percent of total sales, and added, "we haven't found the end to it yet." Refrigerated foods like milk, dairy products, and luncheon meats generate about another 7 percent of sales in an average Costco.

Costco currently carries about

200 skus in frozen foods and 150 in refrigerated foods, and it is averaging about 80 cooler doors per store, although some stores have as many as 100 doors.

The Wholesale Club also experimented with fresh produce in four clubs, but even though in Burke's words it did "OK with it," it is not rolling it out as a full program.

The chain has invested in coolers to merchandise fresh packaged produce like strawberries on a seasonal basis, but generally, as an everyday program, it is sticking to produce with the longest shelf life: apples, oranges, tangerines, potatoes, onions, fruit baskets, salad greens, etc.

The Wholesale Club also has a baked goods program, but it is not finishing off any baked products in the clubs. Instead, it is simply stocking breads and pastries that are partially baked. It sells these semi-baked products to small restaurants and nursing homes, etc., and these customers, in turn, finish off the baked goods for their own "end-use customers."

Not into fresh meats

The Wholesale Club is also not stocking fresh meats. In Burke's words, the chain isn't sure the investment in service and equipment can be justified.

Even though Burke is testing an expanded produce assortment and stocking semi-baked goods, he still feels that most of his growth in grocery sales will come from packaged and frozen items that are "wholesaler-oriented," meaning items that are bought for resale or for use in food service operations.

The Wholesale Club gives extensive space to frozen food, and one of its best-selling new items this year is a 40-count box of mini-bagels that sells for $6.45. Burke noted that they make a great snack as well as a great hors d'oeuvre.

This past Christmas, food gift baskets sold exceptionally well. Burke believes it's because his customers bought them as gifts for their own customers.

Mixed nuts and party-oriented product sales were also strong. Burke said caterers, a key customer base for The Wholesale Club, were buying everything from steam table equipment to peel-and-eat shrimp.

FRESH SEAFOOD

Wholesale clubs are trying to expand their customer base by adding service departments like fresh seafood, fresh meats, produce, and bakeries.

Grocery Sales Trends in Membership Warehouse/ Wholesale Club Stores*
(retail sales, millions $)

Category	1987	1988	1989	1990
Packaged groceries (excludes snacks)	$4,203	$5,181	$6,201	$ 7,647
Packaged alcohol	490	603	687	826
Paper goods	444	564	684	868
Soaps/household cleaners	449	560	672	828
Pet foods	239	304	448	572
Total	5,825	7,212	8,692	10,741

*-Revised estimates based on 1987 Census of Retail Trade
Source: Malcolm Knapp, New York

The Wholesale Club has also expanded its line of quality boxed chocolates for its resale customers. It brought the Fanny Farmer line in around October of 1989, and Burke said it is doing well. "It's a good product. It fits in with our policy of selling the best brands at the lowest possible prices."

Burke is also seeing good sales from a controlled label corn-based chip line made by Medallion Foods, a new snack food company based in Newport, Ark.

As one of Medallion's first customers, The Wholesale Club helped Medallion build its business, working with it on packaging and helping it get the distribution that would build its name.

Two things convinced Burke to go with Medallion. He felt it had a superior product in its corn chip, and the company was willing to work with him on packaging. Medallion was the first chip manufacturer to develop a four-bag pack that used seals on the inner bags, so they could be resold by Burke's customers.

Medallion was also able to deliver through Burke's warehouses, helping to minimize and virtually eliminate Burke's traditional problem with out-of-stocks on chips.

At Pace, Dan Doerflein also thinks it's important to expand his mix more fully into perishables.

Pace tested a fresh meat department and a fresh bakery department in three stores, and the chain is rolling these departments out now. Both sections should be installed in most Pace stores by the end of the year.

"We see those categories as ways for us to better satisfy the needs of our food service customers," Doerflein said.

Doerflein expects these departments to be in about one-third of Pace's approximately 50 stores before the year is over.

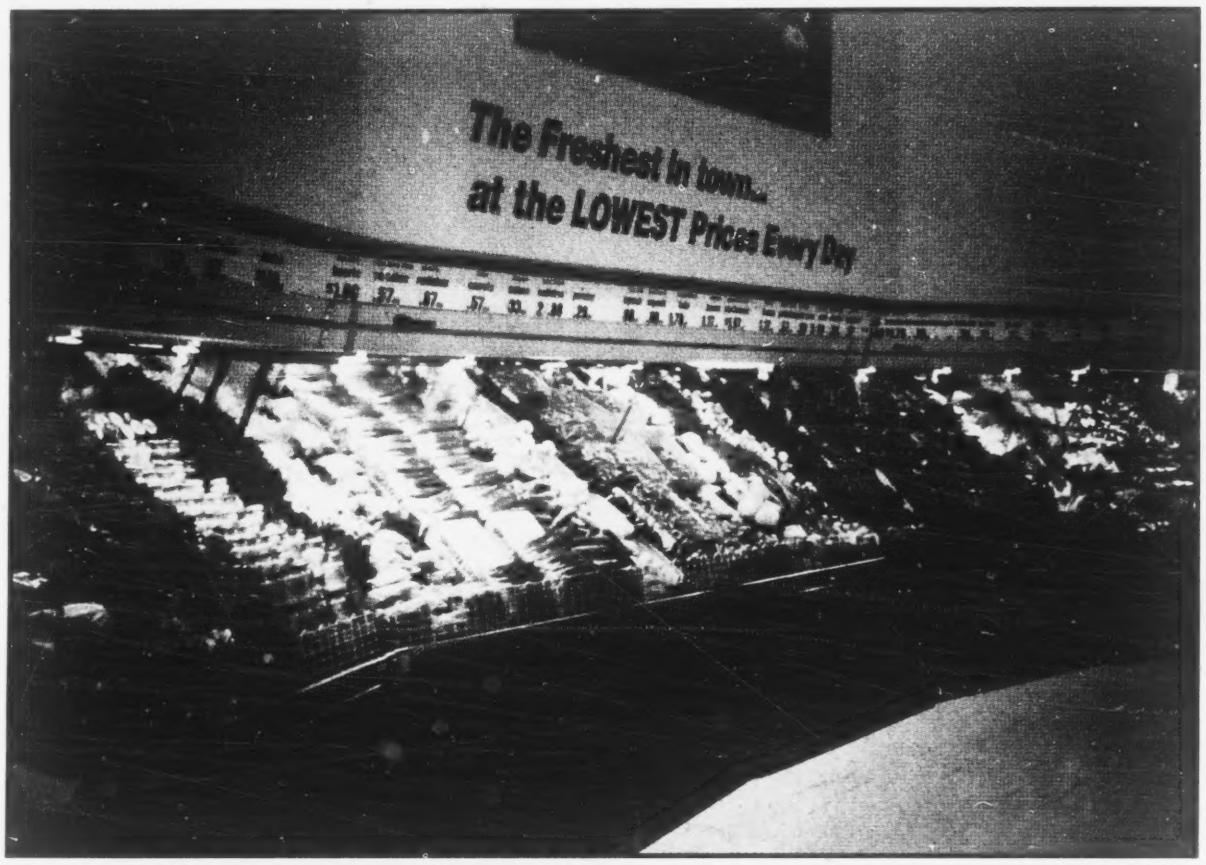
"In the three units we tested it in, we found it worked," he said. "It helps us satisfy the needs of our customers. If we can supply them with fresh meat, fresh produce, and fresh baked goods as well as all their frozen and packaged good needs, we've helped them become more efficient. They're able to buy more things from one source, and that means they have less suppliers to worry about."

Pace's grocery sales growth exceeded the 17% same-store gains of the previous year.

Like The Wholesale Club, Pace, which was recently acquired by K mart, is concentrating on the longer-shelf-life produce. Their baking will be done on premise, some from scratch and some from a mix.

Doerflein isn't worried that his sales of fresh products will cannabalize sales of frozen or packaged items. "I don't think you'll see a reduction in our sales of frozen chicken because we're selling fresh as well," he said.

A typical Pace unit has about 76 doors for frozen foods, up from 36 doors four years ago. Doerflein said sales of frozen products are growing faster than the grocery category as a whole, and frozen foods now account for more than 10 percent of all Pace sales.



Food service customers make produce a viable category for wholesale club stores. Often the produce from a wholesale club turns up in the salad bars of local, independently-owned restaurants.

Doerflein said that after quality and price, packaging is the next most important contributor to sales growth, particularly packaging with colorful graphics.

"It helps sales when you get the nonprofit food service operator in there buying groceries," he said.

"People who buy for church groups, fire houses, and day care centers notice packaging much more than restaurant operators do, and the lack of good graphics does hurt sales."

Doerflein says that in recent years, many manufacturers have come to understand how much good packaging helps, because they've seen the plus business materialize, but he added that there's still much more that can be done.

Food service customers are vital to clubs

Food service operators, small restaurants, caterers, and even church groups and day care center operators are very important customers for wholesale membership clubs.

"That's one of the main parts of our concept," said Stan McMurray, senior vice president, foods, sundries and perishables for Seattle-based Costco. "We primarily supply groceries for resale or reuse to small restaurants, caterers, churches, or anyone who is required to prepare food for away-from-home consumption."

McMurray estimated that about two-thirds of all Costco's sales are for resale in restaurants, churches, etc., and the rest is for personal use. "Groceries pull the customer in for us," he said. "They attract most of our members and they're something members buy for their own personal use as well as for their businesses."

Food service patrons

"Most of our customers are food service operators," said Dan Doerflein, vp of food merchandising for Los Angeles-based Pace membership clubs.

"In fact, we don't even carry the smaller retail packs and we don't even think of bridge packs as a major issue anymore. We think of the smaller pack user as a different customer than the one we're after. We backed off smaller sizes to make sure we're catering to the needs of our resale customers."

"Grocery items that are wholesaler-oriented tend to carry the business," said Jim Burke, the president of Indianapolis-based The Wholesale Club. "Most of our customers buy groceries to use in their businesses, restaurants, catering, etc."

How the Non-Food Trade Treats Groceries

Buyers say customers 'like finding groceries' in their stores, and chains like their high turns and traffic-building potential

To help readers understand how the non-food trade is strategically treating the highest-tonnage, highest-consumption grocery categories, FM *recently commissioned Nebraska-based Fairfield Research to do a national trade retailer merchandising/promotional grocery survey.*

Part one of this special report, which concentrated on the drug and discount chains generating the highest-volume sales, appeared in the spring FM.

The findings are based on a sample that included 20 major discount chains and 30 major drug chains throughout the country.

The drug chains surveyed accounted for approximately $11 billion in chain drug store sales, while the discount chains accounted for some $51 billion of total discount store sales.

The % of Non-Food Chains Advertising Groceries

	% of respondents advertising in 1989	
Category	**Discount**	**Drug**
Candy/gum	100	80%
Snacks/chips/cookies/cakes	85	57
Soft drinks	70	67
Other non-alcoholic beverages; juices, waters, etc.	65	43
Beer, wine, liquor*	5	37
Pet foods	60	40
Household cleaners	70	60
Paper products	65	73
Food wraps	65	53
Garbage bags	65	63
Packaged groceries; canned, boxed, etc.	30	37

*-Small respondent base

Source: Fairfield Research

While all drug and discount stores stock some type of edible groceries like candy or snacks, just a third of all responding chains said they regularly stock packaged groceries, meaning "core" grocery items like canned tuna, salad dressings, soups, or canned meats.

Among the respondents who did stock groceries everyday, 38 percent said it is because of their customers' requests. Sixteen percent said it's also because high-consumption grocery categories "sell well," and another 8 percent said it's because turnover is so high.

Another 8 percent said it is also because groceries can be "profitable" and because many of the items have a strong brand awareness, and hence can be identified by consumers as good values when they're displayed or advertised.

In fact, 50 percent of the respondents said the primary reason they advertised food and grocery products was to "build traffic."

Ten percent also said they used the category to attract new customers, while 8 percent said it was to generate impulse sales.

More than one-quarter of the respondents, 27 percent, said their stores don't carry groceries everyday, primarily because management doesn't see a "consumer demand" for them.

Basically, non-food grocery retailers use one set of criteria for deciding whether they will or won't carry a specific product on a day-to-day basis, and another set of criteria to decide if they will at least promote it as a featured special. The survey found that:

- 22 percent of the respondents said they might decide to promote or advertise a grocery item if there was consumer demand for it or if the manufacturer could show how well it sells in other trade classes or with competitors;
- 22 percent also said it depended on price, adding that if they could acquire a large quantity of a top-selling product at a super price, they could see the value of promoting it;

- 8 percent also said they wanted to be shown that it could generate traffic; and
- 6 percent said it depended a lot on what the manufacturer had to offer, or on how well prepared the supplier was to support that brand in that retailer's stores.

When buyers and merchandisers were asked to rank what was most important to them in helping them decide what to advertise, they gave a variety of answers.

Thirty-four percent said market share was "very important," while 30 percent said it was "somewhat important."

Thirty percent said regional or neighborhood demographics were "very important," while 26 percent said these considerations were "somewhat important."

More than half—52 percent—said the frequency in which the product is used or consumed was "very important," primarily because the faster it was used, the sooner shoppers would have to come back to buy more. Another 26 percent considered this factor "somewhat important."

Bonus packs were considered "very important" by 34 percent of the respondents, while another 34 percent said it was "somewhat important."

Ad support is vital

But the advertising support that a manufacturer puts behind a brand is definitely an incentive. Thirty-six percent of the respondents said this was "very important" to them, and 34 percent said it was "somewhat important."

Also very important is whether the product is in a "growth" category, as 50 percent said this was "very important" and 24 percent said it was "somewhat important."

Thirty-four percent said it was "very important" that co-op ad dollars were available, and another 36 percent called this factor "somewhat important."

Retailers also like to work with manufacturers who are willing to support retailer promotions, as 50 percent said this was "very important".

However, the most important factor in selecting an ad item is potential sell throughs, as 66 percent said high percentage sell throughs were "very important" to them and another 10 percent said they were somewhat important.

The Average Percent Discount Off Suggested Retails

Category	Discount	Drug
Candy/gum	20%	28%
Snacks/chips/cookies/cakes	19	26
Soft drinks	12	26
Other non-alcoholic beverages	8	26
Beer, wine, liquor	n.a.	17
Pet foods	23	18
Household cleaners	10	26
Paper products	3	25
Food wraps	19	27
Garbage bags	18	27
Packaged groceries	17	22

n.a.-Small respondent base *Source: Fairfield Research*

Average Percent Sell Through on Advertised Items

Category	Discount	Drug
Candy/gum	84%	74%
Snacks/chips/cookies/cakes	79	78
Soft drinks	64	92
Other non-alcoholic beverages	67	54
Beer, wine, liquor	n.a.	n.a.
Pet foods	61	63
Household cleaners	75	77
Paper products	n.a.	74
Food wraps	63	59
Garbage bags	63	55
Packaged groceries	82	77

n.a.-Small respondent base *Source: Fairfield Research*

Where Non-Food Chains Prefer To Advertise Groceries (% of respondents giving this answer)

Ad vehicle	Discount	Drug
ROP newspapers	75%	50%
Newspaper or magazine inserts	60	57
Direct mail	90	77
Local radio	45	73
Television	35	47
Store announcements	60	23
In-store circulars	65	60

Source: Fairfield Research

Retailers Rank Best-Selling Everyday Grocery Categories

Category	Discount % responding	Drug % responding
Candy/gum	40%	53%
Soft drinks	15	23
Household cleaners	10	3
Paper products	5	7
Beer/wine/liquor	n.a.	7
Snack foods	5	0
Packaged groceries	5	0

n.a.-Small respondent base *Source: Fairfield Research*

Why Chains Promote Groceries (% of respondents giving this answer)

Reasons	Discount	Drug
To build traffic	40%	57%
To get impulse sales	15	3
To create a low price image	10	3
To pull traffic away from food stores, other competitors	5	7
To build frequencies of store visits	0	7
To attract new customers	20	3
To build margins	5	0
To provide customer service	0	3

Source: Fairfield Research

Why Grocery Items Are Carried Everyday

Factors	% citing this factor
Customer requests	38%
Good seller	16
Brand awareness	10
Turnover	8
Profit	8
Corporate decision	6
Generates traffic	2
Product availability	2
Tested well	2
Fits in store policy	2

Source: Fairfield Research

Second of a Two-Part* FM *Special Report

Non-Food Chains' Grocery Strategies

In part one of FM's *special grocery report, which appeared in the spring 1990 edition, the following categories were examined: candy/gum; snacks/chips and cookies; soft drinks, juices, and other non-alcoholic beverages; household cleaners; paper products; and packaged groceries.*

In this issue we're highlighting the beer, wine, and liquor category, and pet care.

BEER/WINE/LIQUOR

Beer, wine, and liquor is a tough category for discount and drug store operators because it is complicated by the large number of suppliers most chains need to deal with to stock a reasonable inventory and by state laws and regulations affecting pricing and merchandising opportunities.

However, 34 percent of the drug chains surveyed reported that they did stock some liquor everyday. The base of respondents in the discount store sample was too small to be conclusive.

In the drug trade, 37 percent of the respondents said they advertised beer, wine, and/or alcohol in 1989. A third said they advertised this category as often as once a week, and 56 percent said they advertised it at least once every two or three weeks.

Among those who stock beer, wine, and other alcoholic beverages, 33 percent said they intend to advertise the category at the same rate in 1990 as they had in 1989. However, 42 percent of the chain drug respondents said they plan to advertise alcohol more often in 1990.

Buyers who plan to do more advertising said it was because this category was a "good draw" for their stores, and because they wanted their customers to know they carried it "as a convenience" to their shoppers.

Sell throughs aren't a key factor in this category, since most distributors take back whatever quantities aren't sold, or they put the stock back on the shelf for everyday merchandising.

Budweiser and Miller were picked by 25 percent of the respondents respectively as best sellers in this category.

PET CARE

Today 72 percent of all discount chains stock pet care items, including foods and accessories, and so do 38 percent of all drug stores.

Two-thirds of all discount stores advertise this category, as do 40 percent of all drug chains.

Half of all discount chains advertise pet care items at least once a month. Drug chains are less aggressive, advertising pet care, usually foods, more on a quarterly or semi-annually basis rather than every month or so.

Twenty-three percent of the discount respondents but just 6 percent of the drug respondents said they advertised pet foods more often in 1989 compared to 1988. In addition, 12 percent of drug chains and 8 percent of discount chains said they advertised it less in 1989.

Just 8 percent of discount respondents said they planned to keep advertising it more in 1990. The majority, 77 percent, said they planned to advertise it the same as last year.

Fifty-nine percent of all drug chains said they would also advertise it about the same, but the rest weren't sure if they'd do more advertising or less of pet items this year.

Discount chains usually take a 10 percent margin on their everyday pet food items, while drug chains average a 7 percent margin.

The sale price on advertised pet foods is usually 23 percent less the suggested retail when discount stores advertise this category, and an average 18 percent less when drug chains advertise it.

Buyers for both trade classes reported that their sell throughs on this category are reasonably good; discount chains averaged 61 percent sell throughs per ad, while drug chains averaged about 63 percent.

Purina does very well in this category, especially in drug stores, where its 9 Lives cat food is a particular favorite. Kal Kan's Whiskas also does well, as does Kal Kan dog food. Also singled out were Alpo, Sargents' accessories, and several private label brands including Wal-Mart's Ol Roy.

Diet Aids Carry Weight With H&BA Consumers

Diet aids, ethnic and professional hair care products, eye care and new products with an "environmental" positioning were among the categories that enlivened health & beauty aids sales last year and are expected to continue stimulating sales in an otherwise sluggish H&BA department this year.

The environmental push is expected to continue to change the face of the H&BA department as new suppliers such as Bio Pure and existing suppliers like Conair develop lines to exploit growing consumer demand for biodegradable and "natural" products.

Deodorants without aluminum chlorhydrate, toothpastes with more basic ingredients like baking soda and other health & beauty aids that have been popular in health food stores are making their way into discount stores as part of the consumer demand for products that claim to be safer and more basic in formula.

In the same vein, health is becoming the larger element of "health & beauty aids" as the cosmetics department's placement with fashion goods is clearly past the test stage with most retailers.

As part of the health focus, pharmacies and eye care facilities are becoming the natural adjunct to the H&BA department as the population ages. K mart and Wal-Mart continued their rollout of pharmacy departments and Wal-Mart brought the optical category from Sam's to Wal-Mart stores. Even small, regional chains are finding the pharmacy to be a tremendous traffic magnet and are leasing pharmacy space in stores where competition permits.

Incontinence products, eased into assortments gradually over the past couple of years is no longer being coupled with feminine hygiene products. Instead, this merchandise is frequently positioned near the pharmacy or in the vicinity of denture cleaners to reflect the evolution of the product area into its own subcategory.

Aggressive advertising by leading suppliers that speak directly to the consumer by using a representative within the user's peer group, has helped dissolve the stigma surrounding these products. Incontinence products, sonic denture cleaners like those by Denta Plus, and other products are just the start of an H&BA section devoted to the aged.

At the other end of the age spectrum, children's H&BA products grew in response to new licensing in the category by Johnson & Johnson and Ducair. The latter has developed a broad spectrum of children's products including bubble bath, bath toys and crayons, and other grooming aids.

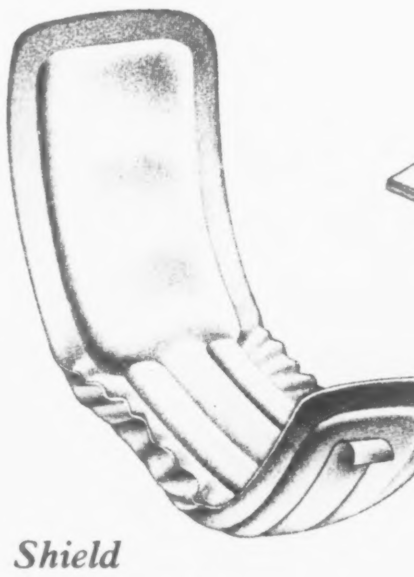
(Continued on page 55)

Health & Beauty Aids $6.6 Billion

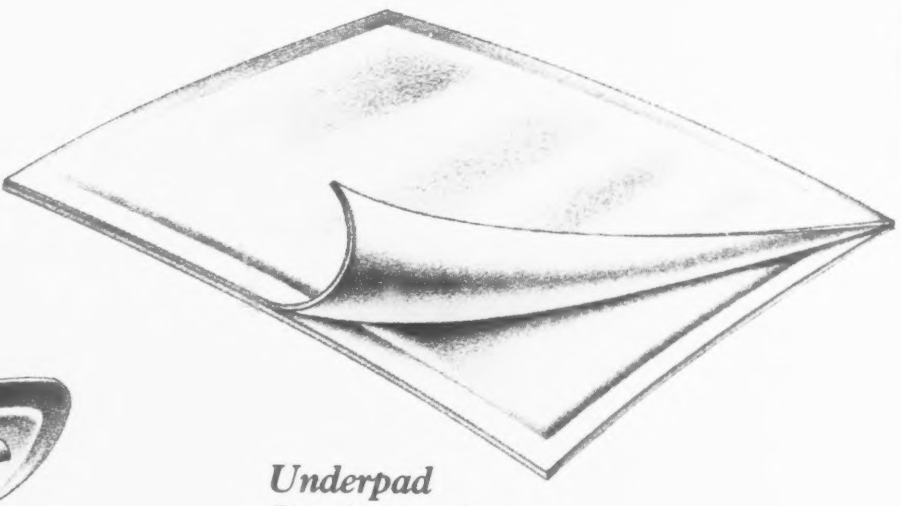
Full-Line Discounters	$6.6B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.6B
Sales Per Store	$840,764
Dept. Size	3,200 Sq. Ft.
Sales Per Sq. Ft.	$262.74
Turns	5.2
Initial Markup	25.5%
Gross Margin	19.5%

NA—not available

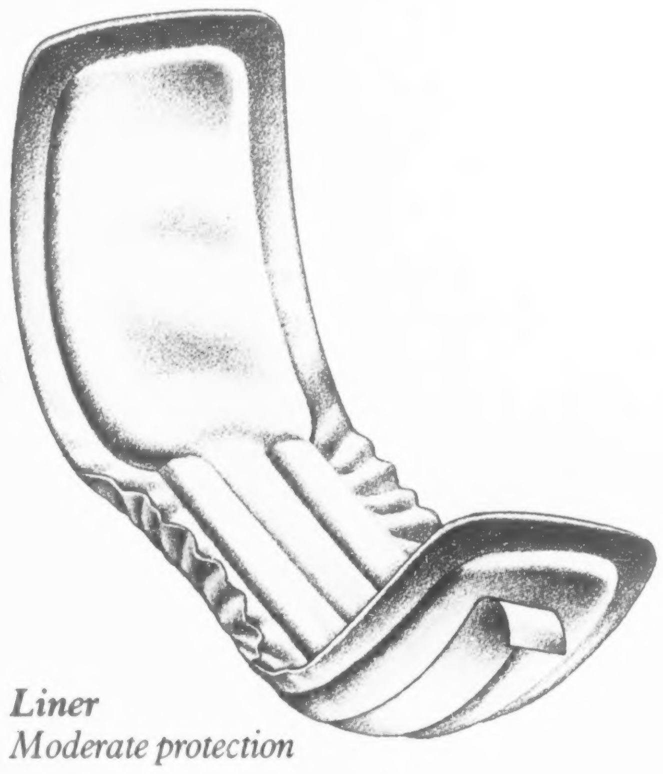
Source: DSN *research*



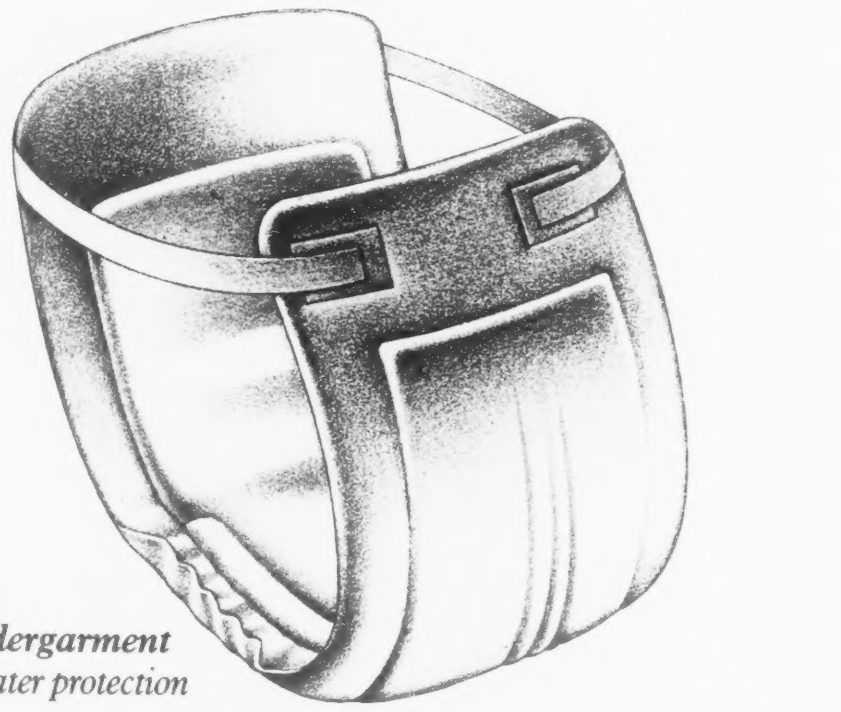
Shield
Light protection



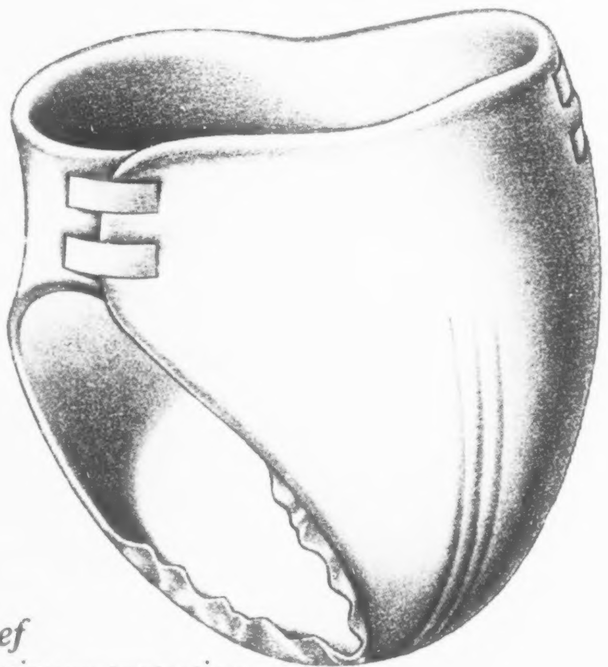
Underpad
Steady protection



Liner
Moderate protection



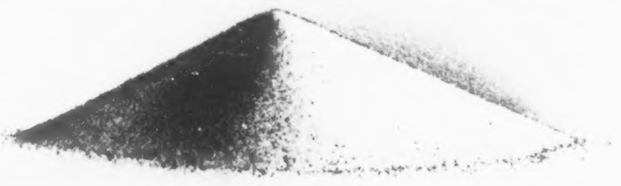
Undergarment
Greater protection



Brief
Maximum protection

If your customers can't get these from you, they'll go somewhere else.

It's not a secret any more.
A surprising number of men and women—1 out of 15—are incontinent. They're through with makeshift solutions like feminine napkins. They're ready to buy the products they really want. Wherever they can find them.



Exclusive ***DRYCORE***™ *fibers absorb and seal in urine and odor. Slim and compact, they can absorb twenty times their weight.* DRY CORE™

A sales program that holds water.
The brands won't help you grab your share of this multi-billion-dollar potential market. *Pope & Talbot will.*

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Toy Segment Sales Get Dolled Up for 1990

A product more commonly associated with most discounters' consumer electronics department was named the No. 1 toy in America last year by *Consumer Reports* magazine, which polled 12,000 families.

The popularity of Nintendo video games has continued this year and shows no signs of fading. Toy retailers can't seem to get enough Nintendo product—hardware and software programs—to fill their shelves.

Nintendo's success has spurred more toy vendors to step up their efforts to develop new toys that create the same level of excitement in other toy categories.

While Nintendo continues to cast a big shadow over the entire toy business, a number of toys are making an impression on the category.

In 1989, the baseball card trading craze reached a fever pitch and is still running high; miniaturization left many categories untouched and was still a strong force at the 1990 International Toy Fair. Hyper cars, play food and G.I. Joe also were important last year.

At Toy Fair 1990, dolls, particularly Barbi and the reintroduction of Cabbage Patch and Holly Hobbie, signaled a return to traditional playthings, dolls in particular. So plentiful were the new doll offerings that many have termed 1990 "The Year of the Doll."

This year, the word "doll" definitely took on a new meaning. In 1990, dolls wet and mess their pants, wear diapers, cry, change the color and length of their hair and even get born and later reveal their gender.

Miniaturization was still strong at the Toy Fair, as were fully-jointed action figures and board games. Basic toys, long pushed aside to make room for technology-driven playthings, made a comeback. Such familiar toys as yo-yos, Silly Putty, G.I. Joe and Mr. Potato Head continued their dominant roles.

The licensing fever infected many more categories at the 1990 Toy Fair, permitting both manufacturers and retailers to take advantage of this cyclical business. With licensing affecting nearly 60 percent of the toy business, the ever-popular Mickey Mouse and Sesame Street gang were almost everywhere. But they weren't alone. Teenage Mutant Ninja Turtles, Batman, Dick Tracy and The New Kids on the Block, among many others, also were on numerous products.

Holly Hobbie, the familiar blue girl in silhouette, is in the process of a comeback. Appearing back in her traditional garb as well as more contemporary versions, the Holly Hobbie art has been licensed to a laundry list of products. However, a recent *DSN* trip to Toys "R" Us, Child World, K mart and Caldor, in Paramus, N.J., failed to uncover even one Holly Hobbie product, not even the Holly Hobbie rag doll which Mattel introduced in March.

Toys $10.9 Billion	
Full-Line Discounters	$4.7B
Catalogers	$0.7B
Specialty Discounters	$5.5B
Full-Line Discount Store Productivity	
Sales	$4.7B
Sales Per Store	$598,726
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$239.49
Turns	3.0
Initial Markup	36.9%
Gross Margin	26.2%

Source: DSN *research*

Serendipity played a role at the Toy Fair this year as themes from the democratization of Eastern Europe cropped up. While the market has still not seen a Gorbachev doll, the Toy Fair did witness the introduction of a Gorbachev board game and Berlin Wall puzzle. No doubt the 1991 Toy Fair will offer many more toys on the same theme.

One of the hottest toy segments this year appears to be pre-school. In fact, according to the Toy Manufacturers Association, pre-school toys grew by 10 percent in 1989 over 1988, making it the fastest growing segment of the nine categories the association monitors.

A by-product of increased births and a return to interest in basic toys, pre-school toys totaled approximately $1.1 billion in 1989, equaling 9.7 percent of the toy category, according to NPD, a toy market index. NPD follows toy sales through its Toy Retail Sales Tracking Service that records sales of 10 sample retailers, including Child World, Target, Hills, Venture and Bradlees, accounting for 20 percent of sales, and extrapolates results for the entire industry.

Expanding Pre-School Business

Many retailers are expanding the size of their pre-school business, increasing shelf space by as much as 10 percent to 15 percent because of steadier sales and profits. In fact, pre-school picked up space at the expense of trucks, kids' arts and crafts and creative activities, according to Kevin Curran, director of traditional toy marketing for Fisher-Price.

Retail sales of toys for all avenues of distribution—including discounters, full-price department stores, full-price specialty toy and hobby stores and category killers—was an estimated $13.4 billion in 1989, up from $12.75 billion in 1988, according to the Toy Manufacturers of America. This year, toy sales are projected to rise 4 percent to 6 percent to over $14 billion. Video games sales, led by Nintendo, totaled over $3 billion last year, the industry's largest category.

In 1989, toy sales declined in just two categories: plush toys, which fell 14.1 percent, and toy guns, off 12.5 percent. Sales of activity toys were level with 1988, according to TMA.

All other toy categories grew. Led by infant and pre-school toys, games and puzzles were a close second, up 9.8 percent; dolls, up 9.3 percent; vehicles, up 8.2 percent; action figures, up 5.7 percent; and ride-ons, up 4.4 percent.

Dolls, one of the top selling toys and fastest growing categories, generates most of its sales from discount mass market retailers, according to Robert Sansone of Mattel USA, a TMA board member. At the mass market, doll sales total about $1 billion, he said. Good news for toy retailers is that toy prices are expected to hold steady this year, rising about 2 percent to 3 percent at retail. One factor aiding this is the decline in plastic prices which is actually allowing some manufacturers to take price cuts.

Pre-school toys *has grown 10 percent over last year making it a very hot segment.* (DSN photo)

Overall, 1989 was a tough year in the toy business for most specialty retailers and some manufacturers. Sales declines troubled many industry participants.

Fisher-Price, a leading toy manufacturer, was plagued by production and distribution lapses during the critical fourth quarter. Now F-P's parent company, Quaker Oats, is in the process of spinning off the beleaguered company.

Lionel Leisure had to thwart a hostile takeover at great expense to its bottom line. Hallmark acquired Dakin Inc., a plush toy manufacturer, earlier this year. Other highlight's of 1989 to 1990 include:

- Tons of Toys being merged into Karl's Toys;
- Child World's parent, CNC Holdings, is looking for a buyer for the 175-unit chain;
- Toy King, with 20 remaining stores, closed its doors for the last time shortly after 1989 began. Its units were acquired by Wisconsin Toys, now known as Value Merchants, for either Toy Liquidator or Toys Unlimited stores.

For Toys "R" Us, however, 1989 was a great year. Sales rose 18.3 percent to $4.313 billion and the company's aggressive expansion schedule portends more pressure for the nation's discount retailers and the world's toy merchants. TRU has set in motion a global expansion program that includes Japan and Europe.

Guarding against mishaps from defective toys, a major concern in the industry, has grown even as toy-related accidents remain fairly minor. Last year, the Consumer Product Safety Commission reported that toy-related accidents requiring hospitalization was 1.8 percent, compared with an average of 3.7 percent for all injuries involving other products.

Apparently, Wal-Mart wanted added protection against defective toys and related lawsuits and opened its own toy testing laboratory last November.

The No. 2 discounter wanted to bill manufacturers for the related costs, a move that TMA opposed. The issue was settled in favor of manufacturers when Wal-Mart agreed to accept a manufacturer's certification that a toy is safe. Wal-Mart also reportedly will not try to bill the manufacturer even if it continues to test toys.

Diet Aids Plump Up H&BA Sales

(Continued from page 53)

Diet products were the star of the health & beauty aids department last year and will continue to generate high volume due to larger space commitments to the category coupled with aggressive advertising, especially of Slim Fast by Thompson Medical.

John Martin, senior vp, merchandising at Boston Distributors, Maple Heights, Ohio, said his company experienced very high double-digit volume growth in diet aids. New product introductions by Thompson, including individual Slim Fast packets and pre-mixed canned Slim Fast (to be introduced in October) will lead to even higher sales levels in 1991.

Boston Distributors makes shipments of health & beauty aids and other products to over 1,500 stores, predominantly on the East Coast.

Eye care products for contact lens wearers continued to be a high-volume product area at Boston Distributors, Martin noted. Aggressive marketing efforts by disposable contact lens manufacturers does not appear to have made any impact on sales of cleaners and other products geared toward the non-disposable lens wearer.

As the number *of ethnic consumers continues to rise, so do H&BA sales.* (DSN photo)

The steady rise in the number of black and other ethnic consumers continued to be translated into greater sales of ethnic hair care products in markets affected by this demographic shift. Dollar store operators such as Family Dollar, Dollar General and Bill's Dollar Stores, which more often are located in markets with large black communities, reaped the benefits of spending on ethnic products.

Specialty Concepts Evolve, Waxes Shine Bright

Truck accessories, Venture, Chicago: Two trends bode well for discounters: vehicle registrations are rising and motorists are putting more miles on their cars. (DSN photo)

> ***While Wal-Mart takes a store-by-store approach toward including automotive service in new stores, K mart has not included auto service in a new store in four years, and is closing existing auto service centers in markets where they fail to provide an adequate return on investment.***

The warehouse club concept has arrived on the automotives aftermarket scene, with two chains now operating in Southern California and a third in the works for New York's Long Island market.

And two chains, Wal-Mart and Sears, are checking out the burgeoning car care mall industry for growth opportunity.

As for product categories, waxes and polishes reflect the brightest picture, posting a 9 percent gain last year to $190 million at retail. That followed a 6 percent increase in 1988. Others categories show sluggish to flat sales, or in the case of spark plugs, a continued decline.

Moreover, if further proof is needed that most full-line discounters dislike the problems involved with car maintenance, two regional holdouts have gotten out of the car care business over the past year.

Meanwhile, the drive of the two largest automotives specialty chains, Western Auto and Pep Boys—Mannie, Moe & Jack, to build larger stores that feature a heavy component of auto service continues apace.

Those are the major merchandising developments over the past year in a specialty category that has seen consolidation come to a screeching halt.

In San Diego, Calif., Auto Parts Club paved the way by opening the first automotives warehouse club.

Auto Giant, a new startup of warehouse club entrepreneur Robert J. McNulty, followed with the second warehouse club unit in San Bernardino, Calif. And McNulty has filed an initial public offering for funds to launch a similar club, Auto Depot, to operate on Long Island.

Although open to DIY customers, Auto Parts Club gears its offerings in warehouse units of 40,000 square feet to the professional installer. For example, it has added brand new engines, not rebuilts, to its product mix in the two units now running.

In contrast, Auto Giant is aiming at the retail consumer, both the DIY customer and the Do-It-For-Me customer. Its first 50,000-square-foot unit, to be joined soon by a second, offers 20 service bays for a wide range of car service.

McNulty's Auto Depot, which could make its IPO by the end of July, will operate on a similar concept. Auto Depot hopes to raise $7.8 million to open two units.

Representatives of both Wal-Mart and Sears attended a car care mall conference which was held in Newport Beach, Calif., in April.

Around 1,000 car care malls have sprung up around the country, offering a variety of auto specialty shops, such as tires, quick lube, body repair, car stereo and glass replacement.

Wal-Mart is looking for developers to build car care malls next to its discount stores, most of which offer no auto service that would compete.

Only about a quarter of the 1,402 Wal-Mart stores offer auto service, and Wal-Mart continues to take a store-by-store approach toward including service in new stores.

That contrasts with K mart's four-year-old policy of skipping auto service in all new stores. Moreover, K mart is closing existing auto service centers in markets where they fail to provide an adequate return on investment. Only about half, or 1,100 of the 2,200 K mart stores offer auto service, compared with a high of around 1,600 several years ago.

Sears still is testing a small, freestanding auto center that could handily slip into a car care mall or strip mall that wouldn't support a full-fledged Sears service center.

Called Sears RoadHandler car care centers, the four test stores in Chicago feature four service bays and a tiny showroom floor that displays mostly tires.

Sears is making automotives one of its power formats and probably will start to introduce it after completing its Brand Central program, adding national appliance brands to its Kenmore private label offerings, and the Craftsman Home and Yard Center, adding national brands to its Craftsman offerings in hardware and lawn and garden.

Besides the freestanding RoadHandler centers, Sears continues to test two concepts that could provide the model for a remake of its full-size auto centers associated with Sears stores.

One is Tire America by Sears, a four-store test, which strips the auto centers of all merchandise except tires, shocks and batteries. Operated by its Tire America subsidiary, acquired along with Western Auto in 1988, the centers eliminate general automotive service, such as tune-ups and oil and lube, to concentrate on service related to tires, such as front-end alignment and shocks, and electrical service, such as alternator, starter and battery replacements.

The hardware departments of each Richmond, Va., Sears store have taken on a limited assortment of auto chemicals, waxes and oils.

Tire America by Sears offers especially sharp tire prices.

Sears itself is testing another concept in two Milwaukee stores, also eliminating general service but offering a wider mix of parts and accessories.

Sears merchandises both test concepts around a variety of national tire brands, in addition to its private label Roadhandler line.

The two giants of the specialty segment continue to emphasize larger stores that offer auto service.

Sears' Western Auto chain is building 15,000-square-foot stores, compared with its chainwide average of 9,000 square feet. Moreover, it continues to close the small mom and pop associate stores that carry the Western Auto name.

Pep Boys is closing its remaining 5,000-square-foot "dry" stores, without service, and replacing them with 22,000-square-foot prototypes that include 10 service bays.

The Warehouse Club, a Chicago-based warehouse chain of 12 stores, is edging into the service business, starting with quick lube and oil service. With seven units already converted, the chain will complete the rollout year-end. At $10.99 for lube, oil change and filter, the service has increased tire sales by 20 percent at each unit.

Wal-Mart's hypermarkets in Texas also offer quick lube service.

Service also will be a major merchandising element for Canadian Tire Corp, which is re-entering the United States market with a four-store test in Indianapolis.

Stores for the as-yet unnamed chain probably will run to at least 15,000 square feet, including 5,000 square feet of storage, another 5,000 square feet of retail floor space and five to 10 service bays, including quick lube bays leased to a franchised operator.

What remains undetermined is whether its U.S. stores will be merchandised around the same home and auto concept that built Canadian Tire into the largest auto chain in Canada, with 1989 sales of $2.5 billion (Canadian) from 400 stores.

Auto service among full-line discounters suffered two more regional casualties over the past year.

Financial problems prompted S.E. Nichols, New York, to close about 28 auto service centers in its 34 stores this spring and to start converting the chain to a deep discount drug format.

Financial problems also spelled the end of auto service in the 11 TSS stores in metro New York when the chain liquidated.

The environmental movement has caught on in automotives. Chief Auto, Dallas, and Pep Boys are recycling used motor oil.

And Chief and K mart both are recycling junk car batteries. K mart stands ready to pay $2 apiece for 40 million junk batteries that now clutter garage and basement alike.

Sluggish new car sales translate into good news for the aftermarket, since motorists are keeping their cars longer. About one-third of cars on the road are at least 10 years old and prime candidates for aftermarket purchases.

Cars of such vintage also tend to be easier for backyard mechanics to work on and many still have carburetors that can be rebuilt and points and condensers to replace. What will happen to the DIY aftermarket when all cars are as hard to work on as a 1990 model is easy to predict, a shift toward less demanding projects such as oil and filter changes and waxing and washing.

As an offset, Americans are driving their cars more miles per year, and total vehicle registrations continue to increase, albeit at a slower pace.

Oil sold at retail increased to about 700 million gallons last year from about 650 million in 1988. But that included oil that quick lube centers use.

The oil filter market in 1989 came to about 310 million, a 1 percent increase from 1988. After half that growth came from the DIY customer, or a scant 520,000 units. And DIY oil sales gains are closely related to oil filter growth.

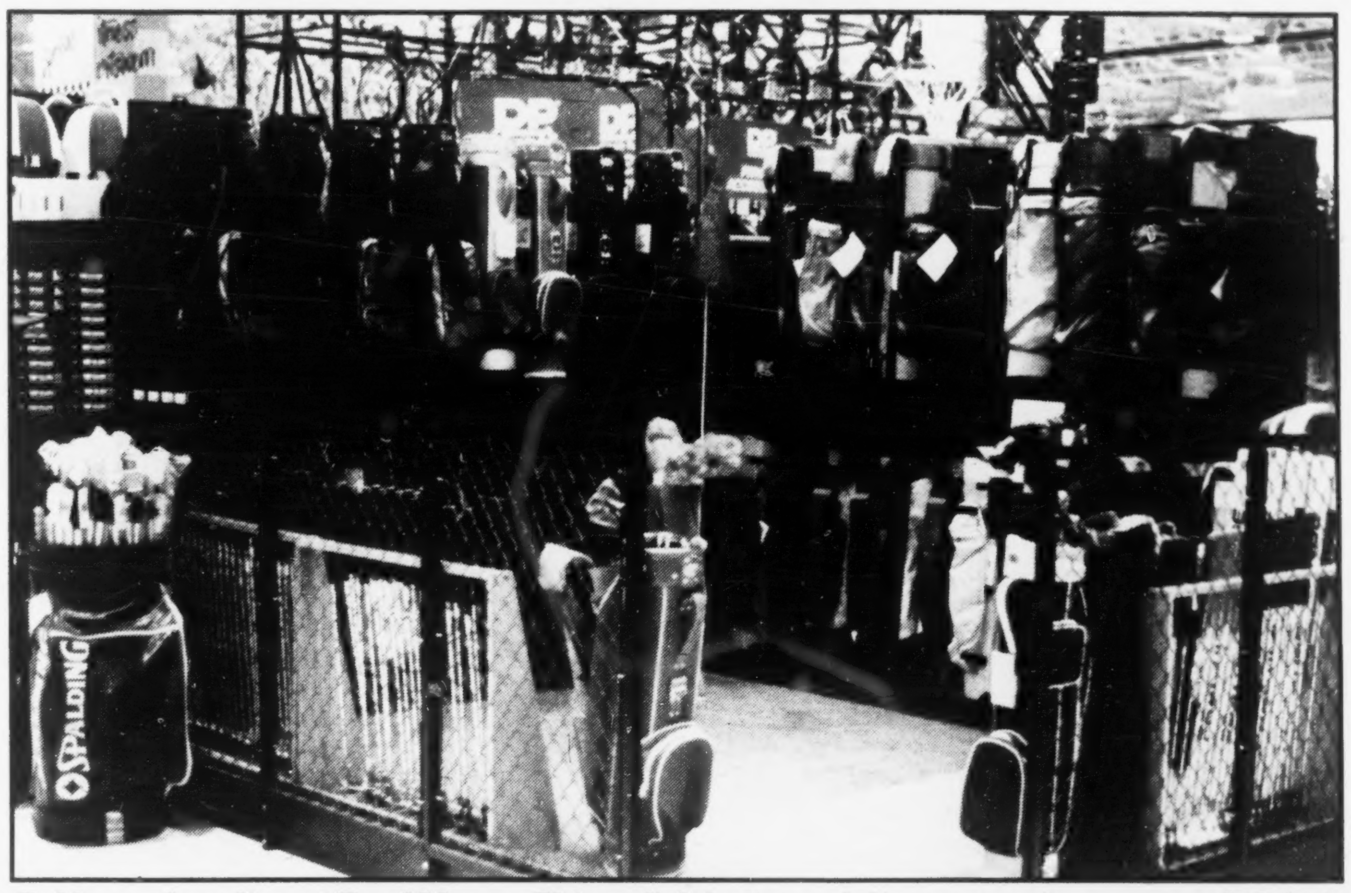
Anti-freeze prices continue to recede from the $9 to $10 level that a world shortage of ethylene glycol prompted.

The resurgence in popularity of powerful eight and six cylinder engines spells good news for the aftermarket. Powering fast, sporty cars, the bigger engines, with more "holes," at least will slow the gradual decline in sparkplug sales. DIY sparkplug sales now account for as much as 45 percent of sales, but that share is expected trail off to the high 30's by the end of the decade.

Automotive $10.6 Billion	
Full-Line Discounters	$5.7B
Catalogers	$0.1B
Specialty Discounters	$4.8
Full-Line Discount Store Productivity	
Sales	$5.7B
Sales Per Store	$726,115
Dept. Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	$315.70
Turns	3.2
Initial Markup	33.8%
Gross Margin	24.8%

Source: DSN *research*

Golf, Fitness Tempt Full-Liners, Category Killers



Golf merchandise at Fred Meyer, Chico, Calif.: Several discounters have expanded their offerings in golf in order to blunt the impact of discount golf shops. (DSN photos)

> *The expansion of such discount golf shop chains as Nevada Bob's, The Pro Image and Pro Golf Discount puts additional pressure on the sporting goods departments of discounters on top of what they are experiencing from category killer stores.*

Superstores of at least 40,000 square feet promise to become more of a fixture in sporting goods merchandising now that K mart and an Arab World investment company are throwing their weight behind the category killer concept.

K mart stands ready to open as many as 15 units a year of Sports Authority, the Fort Lauderdale, Fla., eight-unit superstore chain acquired this spring. The nation's largest discounter scrapped its own superstore test, the Sports Giant warehouse club, and is converting the two stores to the Sports Authority format.

The chain thus bought the sporting goods expertise of Sports Authority founder, Jack Smith, former chief operating officer of Herman's, and eliminated its Sports Giant executive staff.

Sports Unlimited, Tampa, Fla., vows that the sporting goods industry will hear from it now that Investcorp acquired the 11-store chain. Indicating its stature in international finance, Investcorp, with offices in Bahrain, London and New York paid $1.5 billion this spring to buy Saks Fifth Avenue.

Sports Authority, Sports Unlimited, Sports Town, Atlanta, Sportmart, Chicago, and Academy, Houston, all have settled on 40,000-square-foot stores as the minimum size needed today to carry a full line of sports apparel, footwear and equipment.

Oshman's, Houston, bears the distinction of operating what is probably the nation's largest sporting goods store, an 85,000-square-foot category killer it opened in Houston this spring under the name Oshman's SuperSports USA. It reacted to the competitive pressures of five Academy and four Sports Town units of 40,000 square feet in its hometown. Gart Bros., Denver, operates Sports Palace units of 75,000 square feet.

Superstores mean deep pockets, though, requiring an estimated $4 million for inventory and break-even sales of $7.5 million.

To bolster its superstore revenues, Oshman's abandoned everyday low prices and special merchandising in January for its four SuperSports USA units and converted them to traditional promotional pricing and Oshman's inventory. And it opened a new St. Louis store as an Oshman's, rather than a SuperSports.

The results: Oshman's reported that first quarter sales rose 16.1 percent to $70.1 million from $60.4 million in the year earlier period. And it trimmed operating losses for the quarter to $1.4 million from $2.5 million.

Golf, easier on the knees and elbows than jogging and tennis, is the hot sports category for 1990, as the growth of discount golf chains shows.

And the expansion, largely through franchising, of discount golf shops puts additional pressure on the sporting goods departments of discounters on top of what they are experiencing from category killer superstores.

Expansion plans in 1990 of golf discount specialty shops include: Pro Golf Discount, 25 more stores on top of 125; Las Vegas Discount Golf & Tennis, 25 more stores on a base of 55; The Pro Image, 35 new stores on top of 150; and Nevada Bob's Discount Golf & Tennis, 30 more units on a store count of 245.

Such stores promise golf pro shop quality merchandise at a discount.

In keeping with its plans to become No. 1 in golf sales, K mart sponsors the Greater Greensboro Open, which in 1990 is the fourth richest tourney on the PGA circuit. GGO purses this spring totaled $1.25 million.

In another move, K mart introduced this year a new private label golf line, Golden Laddie/Golden Lassie, developed by golf instructor Phil Ritson. Last year, 23.2 million Americans played golf, the National Sporting Goods Association determined though its annual survey.

Golf, ranking No. 15 on the participation survey, still has a long way to go to catch up with No. 1, swimming, with 70.5 million participants. Exercise walking was a close second, with 66.6 million, a dramatic increase from 41.5 million in 1985.

Since about one-third of swimmers are age 17 or younger, exercise walking clearly is the most popular activity among adults, the survey concluded.

Other top five activities were: bicycle riding, 56.9 million participants; fishing, 46.5 million; and camping, also 46.5 million.

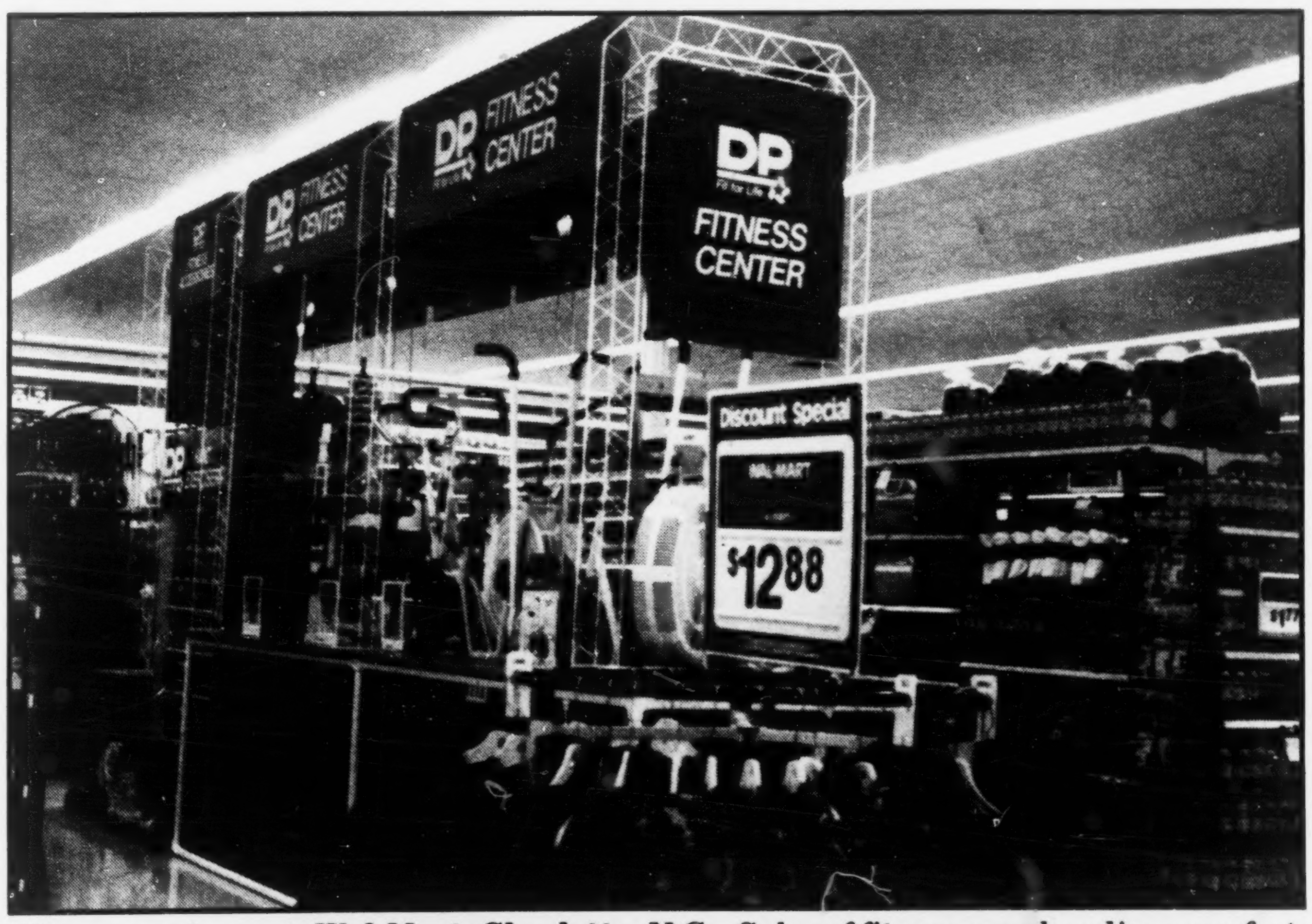
Although equipment exercising ranked No. 7, with 31.5 million participants, exercise continues to be the fastest-growing equipment category.

Sales of equipment to exercise buffs jumped 19 percent last year, following an 18 percent spurt in 1988, the NSGA reported.

Retail sales of exercise equipment totaled $1.73 billion in 1989, compared with $1.45 billion the previous year.

Moreover, unit prices are increasing. The price of an average stationary exercise bike rose 31 percent to $193 in 1989 from $145 in 1988. Sales volume totaled $591.8 million for 3 million units.

Dollar volume in treadmills rose 42 percent, while unit volume increased only 36 percent, said Tom Doyle, director of research for NSGA.



Fitness equipment, Wal-Mart, Charlotte, N.C.: *Sales of fitness merchandise grew faster than any other sporting goods category last year, jumping 19 percent.*

In cross-country skiers, dollar volume rose 8 percent, while unit volume declined 16 percent, he said.

"Consumers are buying better-quality equipment and keeping it longer," Doyle said.

Other equipment categories, such as tennis, reflect the same price trend, he said. Dollar volume of tennis rackets rose 23 percent in 1989 to $187.3 million, while unit volume rose 16 percent to 2.6 million.

The air category, such as air bikes and air steppers, remains an important phenomenon, Doyle said. But he was unable to predict how long the trend will continue.

Despite the gain in category killer stores, smaller chains continue to carve out niches, he said. "They have a lot of flexibility and are more responsive" to changing consumer tastes, he said.

Champs, a Woolworth specialty chain of 5,000-square-foot mall stores, handles only stylish, trendy apparel, footwear and equipment that it can get into and out of quickly.

As another example, Erehwon, a Chicago-based chain of seven stores, specializes in high-end, high-tech outdoor equipment, such as kayaks and rock climbing equipment, Doyle said.

"Specialty shops survive because they offer expertise that's not available at large chains," he said.

Diversification into related fields, such as travel and health and fitness clubs, represents an emerging merchandising trend, Doyle said.

Sports Town offers travel agency service at all 11 units, and Gart Bros., a Thrifty unit, has succeeded in the travel business for some time, Doyle said.

In Japan, sporting goods stores are operating health and fitness clubs in conjunction with their stores, he said, and a couple of California entrepreneurs are attempting to develop that concept for the American market.

Among customers at discount stores, national brands gained ground over the past year. In the 1989 Top Brands survey of shoppers, 71 percent preferred national brands, an increase of 12 percentage points from 1988.

The top three brands they preferred the most are: Wilson, 15.6 percent; Spalding, 12.3 percent; and Coleman, 9.6 percent.

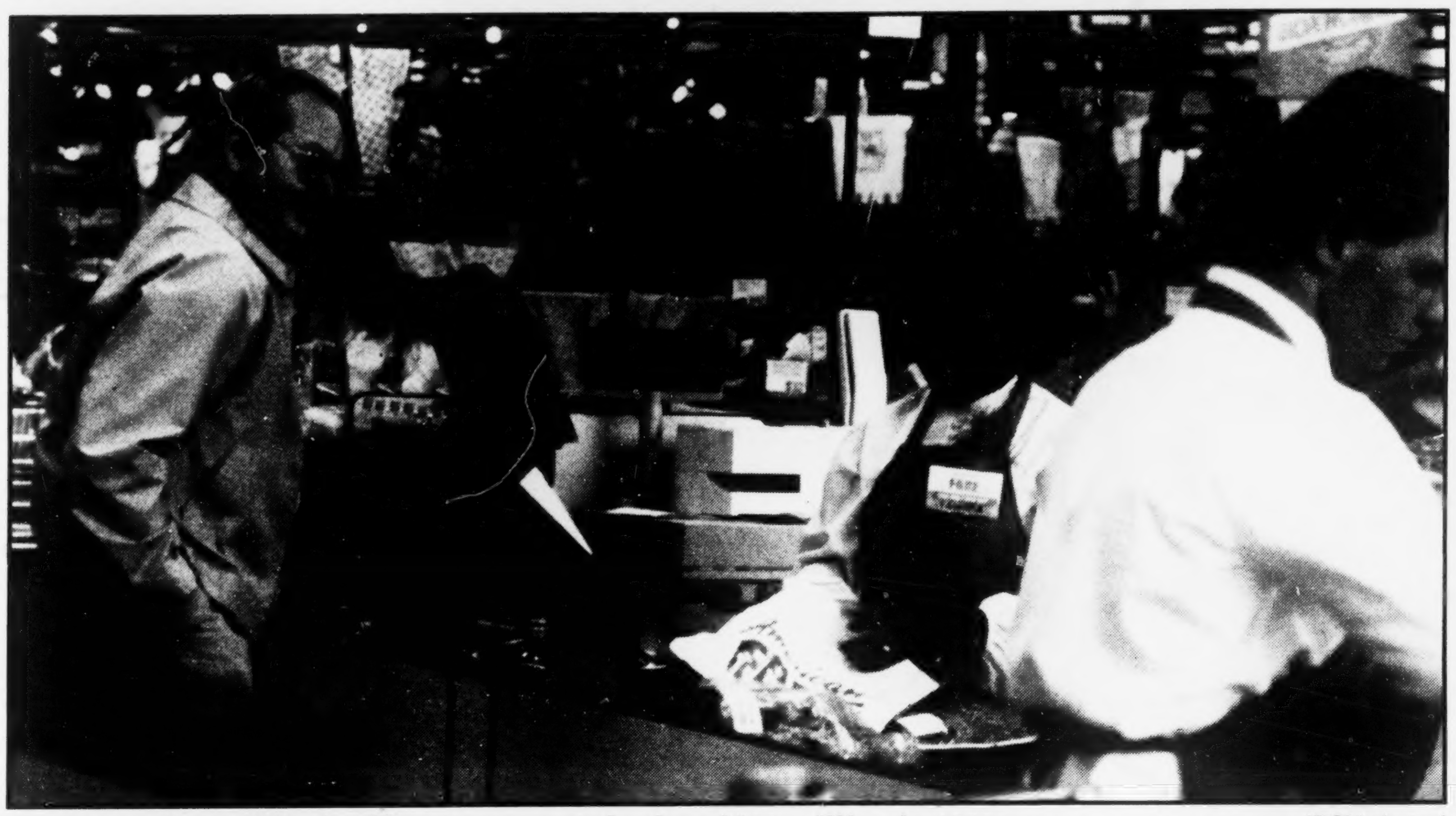
No. 4 is Nike, at 6.3 percent, although discounters can't get them, and Zebco ranked 5th at 5 percent.

Sporting Goods
$6.6 Billion

Full-Line Discounters	$4.1B
Catalogers	$0.6B
Specialty Discounters	$1.9B
Full-Line Discount Store Productivity	
Sales	$4.1B
Sales Per Store	$522,293
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$208.92
Turns	2.1
Initial Markup	37.0%
Gross Margin	27.8%

Source: DSN *research*

DISCOUNT INDUSTRY ANNUAL REPORT: PART II



American Fare, Atlanta: *The store reported sales of $80 million in 1989.* (DSN photos)

Getting a Facelift in 1990

Chain	Total Store Count	No. of Stores To Be Remodeled
K mart	2,194	344
Wal-Mart	1,402	175
Bargain Town	62	62
Dress Barn	436	50
Herman's	266	50
Wall to Wall Sound & Video	102	43
ALCO	100	30
Sky City	57	27
Silo	230	20
Bi-Mart	41	14
Caldor	118	10
Smitty's	24	9

Source: Discount Store News

Geographic Penetration

Chain	1/90 Stores	No. of States With Stores
KayBee	777	49
K mart	2,194	48
Western Auto	468	48
T.J. Maxx	352	43
Toys 'R' Us	404	41
Montgomery Ward	333	39
Herman's	266	38
Marshalls	347	38
Burlington Coat Factory	146	37
Service Merchandise	334	36
Hit or Miss	546	34
Circus World	326	32
Child World	174	31
Dress Barn	436	31
Target	401	31
Champs Sports	199	30
Toy Liquidators	76	30

Source: Discount Store News

4 ITEMS or LESS CASH ONLY
4 ITEMS or LESS CASH ONLY
Kmart

K mart, Oak Park, Mich.: *The full-line discounter had 2,194 stores in 48 states as of January 1990.*

POS Leaders

Chain	1/90 Store Count	No. of Stores With Scanning
K mart	2,194	1,739
Wal-Mart	1,402	1,402
Northern Automotives	828	556
Chief Auto	503	503
Toys 'R' Us	404	404
Target	401	401
Trak Auto	308	315
Service Merchandise	334	300
Whitlock	280	280
Nationwise	270	275
Champs Sports	199	202
Bargain Time	190	190
Kids 'R' Us	137	137
Sam's Wholesale Club	123	123
Lionel Leisure	92	92
Fred Meyer	125	75
S&K Famous Brands	90	72

Source: Discount Store News

Store Productivity Leaders

Chain	1989 Sales (In Millions)	Sales Per Store (In Millions)
Hypermart USA	$ 367	$122.3
Tops Appliances	345	115.0
Price Club	4,901	104.0
American Fare	80	80.0
Carrefour	65	65.0
Fedco	720	60.0
Twin Valu	60	60.0
Bigg's	200	50.0
Meijer	2,800	50.0
Price Savers	685	48.9
Ann & Hope	292	48.7
Costco	2,943	47.5
Wal-Mart SuperCenter	140	46.7
BJ's Wholesale Club	985	42.8
J&R Music World	85	42.4
Alexander's	463	42.1
Sam's Wholesale Club	4,841	39.4

Source: Discount Store News

Selling Space Productivity Leaders

Chain	1989 Sales (In Millions)	Sales Per Sq. Ft. (In Millions)
Price Club	$ 4,901	$1,160.00
Staples	182	750.00
Highland Superstores	924	735.00
Odd Job Trading	69	650.00
The Wholesale Club	570	553.00
Filene's Basement	358	550.00
Price Savers	685	515.00
Costco	2,943	483.00
WORKplace	41	470.00
Sam's Wholesale Club	4,841	462.00
BJ's Wholesale Club	985	448.00
Fretter	225	411.00
NBO Stores	101	400.00
Loehmann's	387	381.00
Sports Unlimited	59	350.00
Everything's a Dollar	40	300.00
HQ Office Supplies	39	286.00

Source: Discount Store News

Soft Lines Sales Leaders

Chain	Soft Lines Sales (In Millions)
K mart	$8,474
Wal-Mart	5,872
Ames	2,742
Target	2,481
Marshalls	1,706
Montgomery Ward	1,659
T.J. Maxx	1,377
Hills	1,100
Bradlees	935
Burlington Coat Factory	779
Fred Meyer	754
Ross Stores	741
Venture	603
Caldor	512
Kids 'R' Us	475
ShopKo	467
Hit or Miss	400

Source: Discount Store News

DISCOUNT INDUSTRY ANNUAL REPORT: PART II

Discount Stores by Region and State

Region/State	Discount Dept. Stores*	Catalogers	Clubs	Total	Leading Chains By Region, State			
New England	483	53	11	547	Ames	147	Bradlees	57
Connecticut	108	12	2	122	Caldor	30	Bradlees	26
Massachusetts	213	25	6	244	Ames	52	Bradlees	37
Maine	51	6	1	58	Ames	29	Kmart	8
New Hampshire	65	6	1	72	Ames	24	Kmart	10
Rhode Island	26	3	1	30	Ames	10	Caldor	3
Vermont	20	1	0	21	Ames	13	Kmart	3
South Atlantic	1,513	274	71	1,858	Kmart	455	Wal-Mart	269
Delaware	27	4	2	3	Ames	10	Rose's/Jamesway	5
Florida	366	99	28	493	Kmart	154	Wal-Mart	99
Georgia	223	21	12	256	Kmart	82	Wal-Mart	70
Maryland	129	32	8	169	Ames	44	Kmart	32
North Carolina	314	47	9	370	Rose's	116	Kmart	77
South Carolina	139	20	4	163	Wal-Mart	44	Kmart	42
Virginia	209	41	6	256	Rose's	53	Kmart	51
Washington, D.C.	1	3	0	4	Ames	1	—	0
West Virginia	105	7	2	114	Heck's	33	Ames	18
East North Central	1,544	147	56	1,747	Kmart	495	Wal-Mart	127
Illinois	340	41	11	392	Kmart	108	Wal-Mart	66
Indiana	247	24	9	280	Kmart	80	Wal-Mart	32
Michigan	329	36	13	378	Kmart	123	Meijer	47
Ohio	456	44	19	519	Kmart	127	Hills	68
Wisconsin	172	2	4	178	Kmart	57	Shopko	33
East South Central	613	68	18	699	Wal-Mart	267	Kmart	175
Alabama	172	16	5	193	Wal-Mart	72	Bargain Town	43
Kentucky	166	8	5	179	Wal-Mart	63	Kmart	50
Mississippi	89	11	2	102	Wal-Mart	54	Kmart	19
Tennessee	186	33	6	225	Wal-Mart	78	Kmart	64
Mid-Atlantic	902	214	22	1,138	Kmart	215	Ames	173
New Jersey	159	41	5	205	Kmart	45	Bradlees/Jamesway	31
New York	352	109	8	469	Ames	96	Kmart	61
Pennsylvania	391	64	9	464	Kmart	109	Ames	68
West South Central	946	96	55	1,097	Wal-Mart	469	Kmart	227
Arkansas	123	6	3	132	Wal-Mart	78	Kmart	18
Louisiana	138	20	10	168	Wal-Mart	80	Kmart	39
Oklahoma	130	8	7	145	Wal-Mart	81	Kmart	18
Texas	555	62	35	652	Wal-Mart	230	Kmart	152
West North Central	755	43	20	818	Kmart	189	Wal-Mart	187
Iowa	136	4	2	142	Pamida	39	Kmart	35
Kansas	118	7	3	128	Wal-Mart	41	Kmart	27
Minnesota	144	7	6	157	Kmart	42	Pamida	39
Missouri	203	17	8	228	Wal-Mart	108	Kmart	44
Nebraska	83	2	1	86	Kmart	18	Pamida/Alco	15
North Dakota	31	3	0	34	Kmart	12	Pamida	6
South Dakota	40	3	0	43	Kmart/Shopko	11	Alco	7
Mountain	436	49	27	512	Kmart	150	Wal-Mart	41
Arizona	111	11	9	131	Kmart	32	Smitty's	21
Colorado	107	16	6	129	Kmart	34	Wal-Mart	20
Idaho	34	2	3	39	Kmart	11	Shopko	7
Montana	28	3	1	32	Kmart	13	Pamida/Gibson	3
Nevada	21	3	3	27	Kmart	10	Target	5
New Mexico	54	9	1	64	Kmart	21	Wal-Mart	16
Utah	48	4	4	56	Kmart	19	Fred Meyer	17
Wyoming	33	1	0	34	Pamida	14	Kmart	10
Pacific	567	72	94	733	Kmart	224	Fred Meyer	75
Alaska	4	2	2	8	Fred Meyer	4	Costco/Price Savers	1
California	313	53	73	439	Kmart	170	Target	99
Hawaii	9	0	1	10	Gem of Hawaii	5	Holiday Mart	3
Oregon	141	5	7	153	Fred Meyer	42	Bi-Mart	36
Washington	100	12	11	123	Kmart	33	Fred Meyer	29
Puerto Rico	10	0	0	10	Kmart	10	—	0
Total:	**7,769**	**1,016**	**374**	**9,159**				

**Chart excludes dollar discount chains, closeouters and hypermarkets.*
Total numbers may vary slightly depending up frequent openings and closing during the year.
(See story, page 68)

Source: Discount Store News/Chain Store Guide

Texas, New York and Calif. '89 Store Leaders

As the second-largest discount chain in the United States and the most profitable, Wal-Mart could expand the parameters of the chain to almost anywhere. The possibilities could include three regions of the country, 32 states plus Washington, D.C., and maybe even Puerto Rico, locations where its representation is weak or nonexistent.

Currently, Wal-Mart doesn't even operate discount department stores in 25 states and operates 10 or fewer stores in three states, according to an analysis of discount department store penetration in the 50 states, the District of Columbia and Puerto Rico. (See chart, page 66).

Although Wal-Mart has announced its intentions to open in the Northeast, specifically the mid-Atlantic states—a new area for the chain—expansion opportunities also appear obvious in Arizona, Minnesota, Ohio, Virginia and Maryland.

Potential store openings or possibilities now exist in a variety of markets for many operators. Areas such as Washington, D.C., Alaska and Hawaii feature either vacant stores, underserved markets or minimal competition.

Expansion possibilities are being seized by many operators. For example, the demise of Heck's, with 55 units, mostly in West Virginia, enabled L.A. Joe, a new retailer owned by Jordache, to move quickly into those stores. Similarly, K mart, Caldor and The Home Depot bought some of TSS' leases on Long Island, offering entry into a much sought-after market.

Last year, the United States had a total of 9,159 discount department stores, catalog showrooms and warehouse clubs: 7,769 discount stores, 1,016 catalogers and 374 warehouse clubs.

By far the store count leader is K mart, followed by Wal-Mart. Obviously their sheer number of stores dominate many markets. However, that is not the case in New England where Ames and Bradlees dominate. In this region, Ames operates the most number of stores, 147, followed by Bradlees, 57.

Based on store counts, Ames is the dominant discount store chain in the mid-Atlantic, behind K mart. Fred Meyer, with 75 units, is in the second spot in the Pacific region behind K mart, which operates 224 stores.

Of the nine regions of the country, the South Atlantic has the most stores—1,858. The East North Central region is second with 1,747 followed by the mid-Atlantic region, with 1,138 stores.

However, when store count is divided by the number of states in the region, the three-state mid-Atlantic becomes the store count leader with 379 stores per state followed by 349 stores for the five-state East North Central region, and 206 stores per state in the South Atlantic region.

Texas has the most stores—652: 555 discount stores, 62 catalog showrooms and 35 warehouse clubs.

Alaska has the fewest number of stores of any state in the country, with four discount department stores, two catalog showrooms and two warehouse clubs.

Only one state has no catalog showrooms: Hawaii. Puerto Rico, with 10 discount stores, also has no catalogers or warehouse clubs.

In addition to Puerto Rico, and the District of Columbia, Vermont, North Dakota, South Dakota, and Wyoming had no warehouse clubs in '89.

The East North Central region, with five states, has the most discount department stores—1,544, followed by the South Atlantic with 1,513 and the West South Central states, 946 from four states.

The greatest concentration of catalog showrooms was in the South Atlantic region last year, with 274 units, followed by the Mid-Atlantic with 214 units, and the East North Central states, with 147.

The state with the greatest number of catalog showrooms was New York, with 109 followed by Florida with 99 and Pennsylvania with 64.

Warehouse clubs were in their greatest abundance in the Pacific with 94 clubs, followed by the South Atlantic with 71 units and the East North Central with 56.

California had the most number of warehouse clubs in 1989, 73, followed by Texas with 35 clubs and Florida, 28.

We remember where we started. With children in country schools, posing for pictures that made their parents proud.
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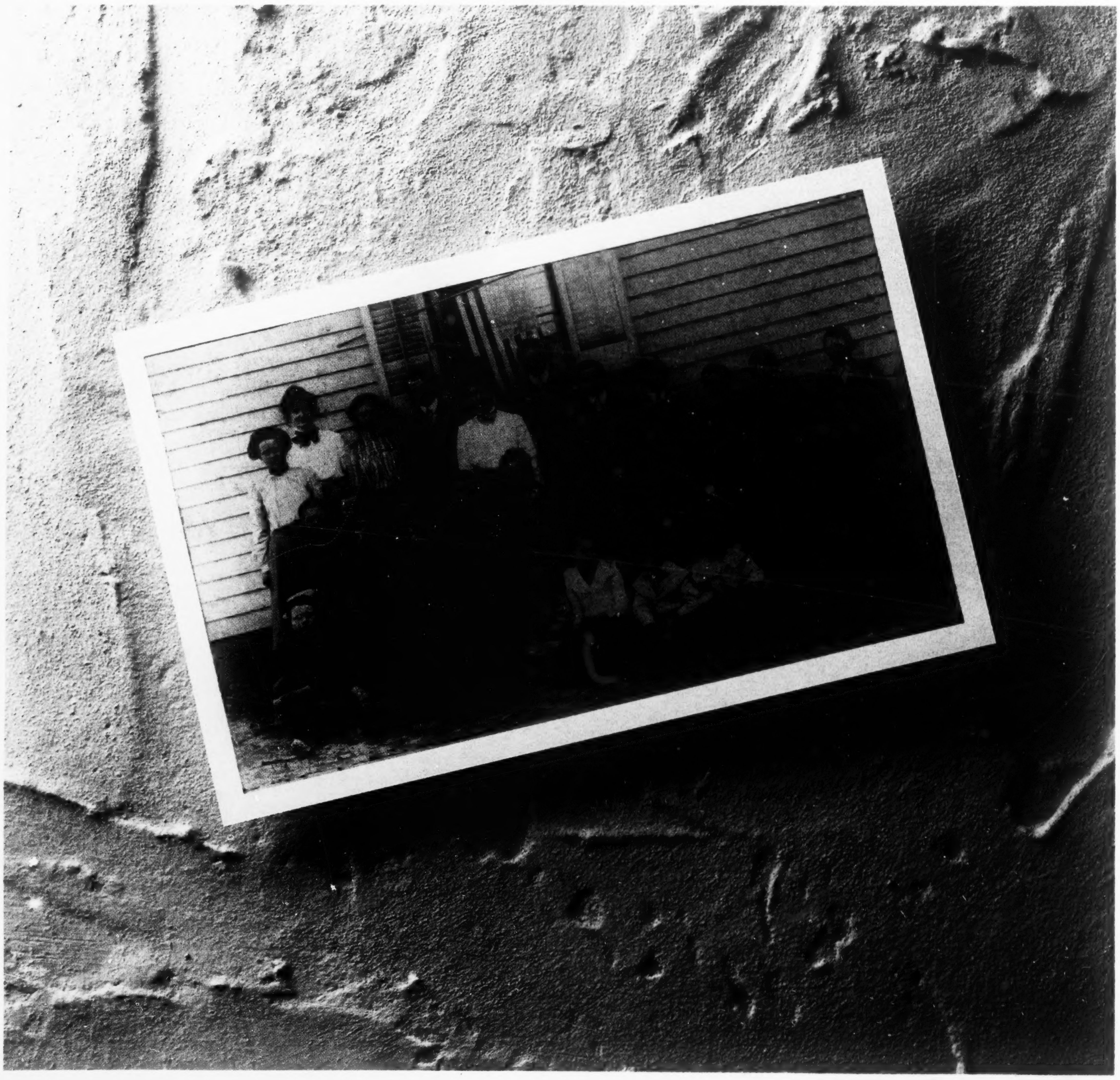


Chainwide Remodeling Key to K mart's Future

New Concepts, Acquisitions Rejuvenate No. 1 Discounter

TROY, Mich. — The 1990s will see the most ambitious remodeling program in discount history, as K mart revamps its 2,200 stores to conform with its new Oak Park, Mich., prototype. At the same time, the chain will add about 300 new stores and relocate another 200 or so.

DISCOUNTING'S TOP 10

1

The nation's largest discounter has struggled over the past two years and, until recently, appeared to be stagnating. It had stopped growing, adding only 50 or so stores a year, and many of its storefronts had become obsolete.

Archrival Wal-Mart had jumped ahead of K mart in developing new concepts, becoming a leader in the wholesale club business with Sam's and in the hypermarket business with Hypermart USA. K mart had only a handful of Makro quasi-warehouse clubs to show for its expansion efforts.

But 1989 saw a flurry of activity. In early spring, K mart debuted its hypermarket, American Fare, then followed with what Wal-Mart calls a supercenter, a food/general merchandise amalgam called "Super K." As has been Wal-Mart's experience, the latter, a smaller, more sku-intensive version of the hypermarket, has been more successful.

Later in the year, K mart bought Pace Membership Warehouses, a successful chain that immediately put K mart on the wholesale map.

In early 1990, K mart purchased The Sports Authority, a successful sporting goods megastore operator. In both cases (Pace and Sports Authority), the purchase included the services of current management; Charles Steinbrueck of Pace and Jack Smith of Sports Authority. K mart not only strengthened its retail presence, it also deepened its senior management "bench" and acquired specialized category skills.

Earlier this year, chairman Joseph Antonini noted that the 1989 openings and acquisitions were the groundwork for K mart's long-term strategy for the coming decade. He envisioned "a core of 2,500 modern K mart stores" supplemented by a group of high-volume, value-driven specialty operations. Current speculation has K mart acquiring one or more ongoing office products chains in the coming years, and the retail giant might even look carefully at some form of off-price fashion apparel operation (a sensitive area, given the chain's well-publicized failure in the '80s with Designer Depot).

K mart is trying to reposition itself in the mind of its shopper, attempting to become more fashionable and upscale. While the notorious "Blue Light Special" will probably remain (even Wal-Mart has copied the strategy with "Red Light Specials"), as will low-cost apparel, most departments will see an ever-increasing attention to fashion and upmarket goods.

At the Oak Park prototype store, the apparel departments are a sea of neon, and hot licensed apparel (e.g. The Simpsons, New Kids on the Block) highlighted the juniors and children's areas. Each department contains bright, colorful transparencies, and goods are displayed on waterfall and other fashionable fixtures.

The Martha Stewart coordinated collection dominates the home fashions department, and it is joined by high-fashion products from leading mills. While promotional and opening-price goods are still an important part of the mix, higher price point fashion goods are now at least equally important.

Similar trends are evident throughout the store, in consumer electronics, photo, housewares and toys (which currently features a whole Ninja Turtle wall). The store illustrates K mart's emphasis on developing key lifestyle departments into businesses with category dominance.

As the prototype spreads throughout the chain, K mart hopes that it can attract the relatively affluent shoppers that have been siphoned off by specialty stores, warehouse clubs and upscale discounters like Target.

It will be a long-term project, however. K mart, for whatever reason, has developed a stigma among upper middle-class consumers.

K mart may have sabotaged itself by relying almost exclusively on private label apparel which too often tended to be less than fashionable and poorly constructed. It will struggle to get shoppers back into the habit of shopping the full store.

According to Antonini, the private labels that remain, most notably Jaclyn Smith, have performed well and are returning healthy margins. The company is exploring other celebrity endorsers to escape the low-fashion public perception.

That was also the intent of the Martha Stewart tie-in, which reportedly cost K mart millions. Denied hot designer names in domestics and designer-type products in housewares, the company attempted to create its own hot designer name, which would allow it to compete against specialty stores and department stores like Macy's.

To date, Martha Stewart has not been a raving success. During the annual meeting, Antonini supported the program and said he was happy with sales results, but indications are that with the exception of one hot sheet/comforter pattern, the program has not created the degree of excitement K mart thought it would. However, a K mart store manager noted that Stewart's TV and cable specials have "legs" and can run year after year, spreading the K mart word and leveling the initial investment over time.

A significant change in the fashion focus at K mart is the company's decision to cut circulars in half, to one a week, and to sharply reduce the number of goods advertised in each circular. The result is more focus on fashion, bigger illustrations, and a lifestyle, every day low price message. So far, according to the company, consumers have reacted positively to the changes.

A year ago, K mart seemed to be a chain in decline. But in 1989, Antonini made the sweeping changes most analysts said would be necessary to keep the company competitive. However, most of those changes have yet to trickle down to the average K mart store. The Troy giant's fate is now inextricably entwined with the ultimate success of its new ventures and remodeling program.

14⁹⁷
17⁸
24⁹⁷
14⁹⁷
18⁹⁷

The Oak Park, Mich., prototype *(above and at right) reflects K mart's emphasis on developing key lifestyle departments into businesses with category dominance.* (DSN photos)

K mart

	1989	1988	% Change
Sales (In Millions)	$24,210	$22,940	5.5 %
Earnings (In Millions)	1,318.0	1,436.0	(8.2)
Stores	2,194	2,145	22.8

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items).

K mart sales and store counts are U.S. K mart stores only, earnings include K mart stores, Pace and Makro clubs, Canadian Kresge and Jupiter stores and one American Fare hypermarket. 1989 operating include also excludes a $598 million non-recurring charge for K mart store restructuring.

Source: DSN *research*

34⁸
CORELLE
CORELLE
THE ICED TEA POT

Oak Park, Mich.: Prototype *features brand name dinnerware merchandised with open stock displays.*

Wal-Mart Poised to Run Away From the Field

HOME COMPUTERS
FLOPPY DISC
WAL-MART
NX-1000 MULTI-FONT II
PC 1000
PC COMPATIBLE PERSONAL COMPUTER

Consumer electronics, Charlotte, N.C.: *The CE department at the chain's second 'vendor' store capitalizes on boom in home office sales.* (DSN photos)

BENTONVILLE, Ark. — $125 billion by the year 2000. That's the lofty sales target Sam Walton has set for Wal-Mart, the fastest-growing retailer of the past decade.

To put that figure in perspective: the top 50 discount retailers of today (including membership warehouse clubs and specialty chains) generated about $128 billion in sales last year, or about the same as what Wal-Mart alone hopes to ring up 10 years from now.

DISCOUNTING'S TOP 10

2

Including its Sam's Wholesale Club division, the retailer expects 1990 sales to reach $32 billion, up from $25.7 billion in 1989.

Wal-Mart's discount store division crashed through the $20 billion sales barrier last year, holding on to its No. 2 ranking among discount chains and closing the gap on No. 1 K mart by nearly $3 billion. Wal-Mart's 1,402 discount stores rang up $20.97 billion in sales last year, a 24.7 percent gain over 1988's total. With another 170 discount stores expected to be opened this year, Wal-Mart's discount division should approach $27 billion in 1990 sales. The gap between Wal-Mart and the rest of the discount industry is likely to widen this year as the chain enlarges and modernizes about 130 stores.

At their projected growth rates, 1990 could be the year in which Wal-Mart passes K mart in the race for discount store sales leadership.

Operating income of the discount division rose 16.7 percent to $1.539 billion, making Wal-Mart's operations the most profitable among discount retailers in the nation—surpassing K mart's long-time leadership in that important measurement.

Among current Wal-Mart states, Florida, Indiana and Ohio are expected to garner the greatest number of new store openings. A recently opened distribution center in Indiana should comfortably support expansion in the Midwest.

Using Sam's to test the waters, Wal-Mart will bring its discount stores to the Northeast in the coming year. The chain will open its first discount stores in Pennsylvania this year, and with Sam's opening throughout the Northeast, Wal-Mart discount stores can't be far behind.

The chain will also invade California this year, with stores already slated for three mid-state cities. The company sent executive vice president Nick White, who spearheaded much of Sam's phenomenal growth, to California to lay the groundwork for what is expected to be a massive store opening program on the West Coast. Other states in which Wal-Mart can be expected to expand into over the next year or two include: South Dakota and North Dakota, Utah and Nevada.

The synergy with Sam's is also showing up in a test program of opening Wal-Mart stores alongside Sam's Wholesale Clubs. Such combinations are currently in place in several markets including Madison, Wis., and Chicago, and more are planned. Harrisburg, Pa., for example, will get a Wal-Mart and Sam's combo.

In its modernization and expansion program, Wal-Mart is clearly favoring larger stores. Most new stores this year will be at least 95,000 square feet, with wider aisles and broader merchandise assortments.

Particularly in the past six months, Wal-Mart has dramatically improved its apparel assortments and presentations. While basic apparel business (foundations, men's and children's wear) has always been strong, the discount stores have vastly buttressed their fashion merchandising image.

In addition, a new small-store apparel prototype has been tested to improve apparel sales in Wal-Mart's smaller markets.

Wal-Mart appears to have settled upon the SuperCenter as its concept for combining grocery and general merchandise sales. Its three hypermarkets, in Garland and Arlington, Texas, and Topeka, Kan., have been remerchandised to the broader sku selection found at the SuperCenters.

Wal-Mart currently operates four SuperCenters, but could easily open twice that number over the coming year. Watch for a massive rollout of the SuperCenter concept in about two years, after Wal-Mart learns all it needs to know about the grocery business.

Last year, Wal-Mart also opened the discount industry's first "vendor store." This experimental store, which opened in Janesville, Wis., last fall, employs a number of new ideas on merchandise display and fixturing proposed by Wal-Mart's vendors. The 110,000-square-foot store includes a number of single-vendor shops in such merchandise areas as women's wear, bed & bath, and greeting cards.

Early in 1990, Wal-Mart opened its second vendor store—this one in Charlotte, N.C. President and chief executive officer David Glass described the newest vendor store as a "sort of correction of errors" from the Janesville unit. The Charlotte vendor store included a new 2,800-square-foot shoe center, a 3,000-square-foot Kids' World, a high-profile photo center, more vendor-sponsored shops in women's, men's and kids' apparel, as well as special vendor-designed fixtures in toys, automotives, and consumer electronics.

Despite chairman Walton's current bout with cancer, the company has the leadership to maintain its growth record. Glass, along with vice chairman and chief operating officer Don Soderquist, has assembled a young, aggressive management team prepared to do anything to keep Wal-Mart on top.

Among numerous major achievements over the past years, Wal-Mart was recognized last December as Retailer of the Decade by *DSN*.

Wal-Mart

	1989	1988	% Change
Sales (In Millions)	$20,970	$16,820	24.7%
Earnings (In Millions)	1,539	1,325	16.2
Stores	1,402	1,259	11.4

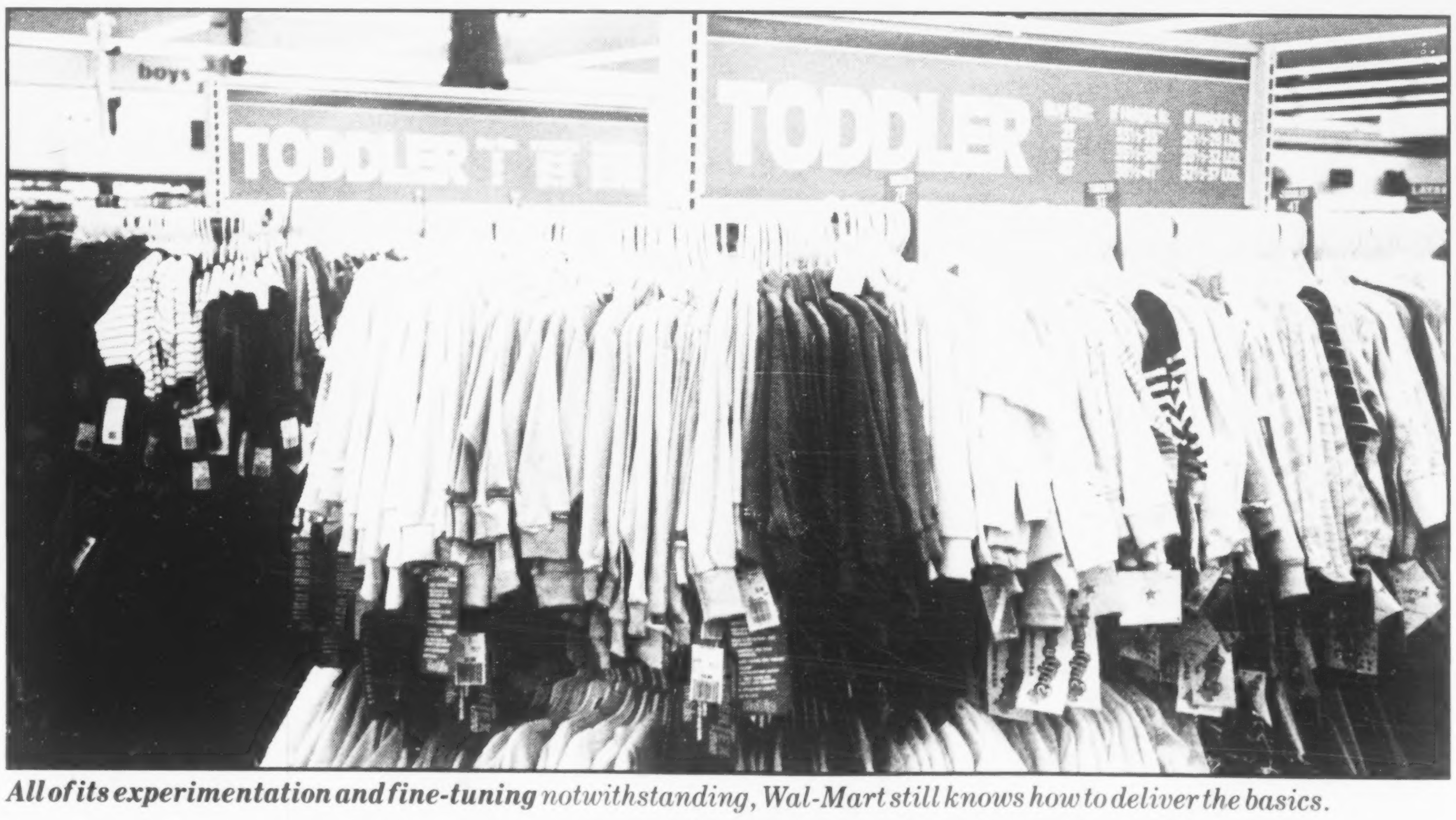
Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: Operating income (profit/loss from continuing operation, before taxes and extraordinary items).

Source: DSN research

WAL-MART
$2.00

Domestics, Janesville, Wis.: *Embellished towels are now readily available at most Wal-Mart stores.*



All of its experimentation and fine-tuning *notwithstanding, Wal-Mart still knows how to deliver the basics.*

Target Plans Large Non-Food Superstore Pilot

MINNEAPOLIS — Ending a test of everyday low pricing and launching a new sports promotion program, Target has set its course for the '90s.

The nation's third-largest discounter—Ames continuing debacle with its Zayre acquisition helped Target lock up the No. 3 slot—enjoyed a banner year in 1989.

Operating profits for Target soared 32 percent last year on a 19 percent sales gain. Same store sales rose 7 percent. Profits increased to $449 million in 1989 from $341 million the previous year. That was the 15th straight year that Target has posted a new earnings record. Sales jumped to $7.52 billion from $6.33 billion.

DISCOUNTING'S TOP 10
3

Sales per square foot rose to $197 in 1989 from $192 the previous year.

Operating profits as a percentage of sales increased to 6 percent in 1989 from 5.4 percent in 1988.

Target accounted for 46 percent of the operating profits of its parent, Dayton Hudson, and 57 percent of revenues.

Speculation that Target would take another step toward becoming a national chain by acquiring Caldor's 118 stores in the Northeast ended when May Department Store Co., sold the chain last fall to investors and management.

With the reopening in the spring of 1989 of 30 former Gold Circle stores in the Southeast and aggressive growth in California, expansion spiked at 60 units for the year. Target ended 1989 with 401 operating stores, compared to 341 the previous year. It was operating almost 40 million square feet of retail space for a store average of about 100,000 square feet.

The metro Los Angeles market now is Target's largest, with 41 stores. That compares with 19 for its home territory of Minneapolis-St. Paul.

Of Target's eight largest markets, two others are in California—the San Francisco Bay Area, 13 stores, and San Diego, 12. There are a total of 66 stores in California.

Projected store openings for 1990 fall into a more normal pattern, with 29 new units planned, for an expected count of 430 by the end of the year.

Although Target enhanced its upscale image last year with the opening of its P-88 prototype that features department store touches, hard lines still dominates soft lines sales by 2-to-1. Hard lines accounted for 67 percent of sales in 1989.

Target further burnished its upscale reputation last year by accepting American Express, hoping to attract new, more affluent customers who will check out with higher tickets.

Back in February, Target halted its 18-month test of everyday low pricing and fixed its sights on sales-oriented marketing. Starting with four units in Albuquerque, N.M., and Knoxville, Tenn., the EDLP test eventually expanded to about 50 stores, including the 30 former Gold Circles.

Although scotching EDLP, Target did incorporate some elements of the test policy, including more feature oriented circulars, with better and bigger photos and its Great Buy program on special deals.

In September, Target expects to open its new superstore format, called Greatland, in Apple Valley, Minn., a suburb of Minneapolis.

With 160,000 square feet of space, Greatland will be more than 50 percent larger than the average Target store.

Despite a size as large as K mart's second American Fare hypermarket, in Charlotte, N.C., and some of Wal-Mart's SuperCenters, Greatland won't get into the grocery business.

Instead, the additional footage will be devoted to wider shopping carts, aisles, checkout lanes and merchandise displays.

A major feature of Greatland will be what Target calls "customer-friendly adjacencies" that will lump together all items that customers associate with each other.

An example will be grouping hair dryers, hair accessories and health care electrics.

The experimental superstore, two years in the planning, will expand the offerings of traditional power departments: H&BA, toys, children's apparel, home decor, and stationery and home office.

For added customer convenience, Greatland will include a postal center, a one-hour photo lab, a pharmacy and a new restaurant.

Target is building at least one more, and possibly two, Greatland superstores.

In its promotions, Target is turning to sports marketing. In 1989, it co-sponsored Wil Steger's dog sled crossing of the Antarctica and developed a line of winter sports gear and apparel bearing his name.

This spring, it hooked Babe Winkelman, a professional angler, to promote expanded offerings in fishing gear.

And it became a co-sponsor of a 500-style race car in time for this year's Indianapolis 500.

In its hometown, Target is involved in sports promotion with the Timberwolves, a National Basketball Association expansion team.

Next year, look for Target to launch similar ventures with the Los Angeles Lakers basketball team and the Los Angeles Kings, a hockey team.

Another sports marketing program for 1991 will involve Monday Night football and the National Football League.

Reacting to consumer concern about the environment, Target adopted the Kids for Saving Earth, a new club intended to get children involved in such programs as community recycling.

Target is committing about $1 million in 1990 to the environmental club, launching it just before Earth Day, April 22.

The environmental program, along with many other community service efforts, helped Target earn the 1989 Discounters in Service to the Community (DISC) award, sponsored by *Discount Store News*.

In another apparent coup, Target chairman Robert Ulrich was elected Discounter of the Year earlier this year by his peers in the industry. He will be honored at *DSN's* annual SPARC banquet, Aug. 12, in Chicago.

Target

	1989	1988	% Change
Sales (In Millions)	$7,519	$6,331	18.8%
Earnings (In Millions)	449.0	341.0	31.7
Stores	401	341	17.5

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items).

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Source: DSN *research*

***Target, San Diego:** This store is one of a dozen located here that comprise the chain's 66 Calif. stores. The rest include 41 in Los Angeles and 13 in the San Francisco Bay Area.*

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A bad day at work can often lead to verbal abuse at home. Think about what you're saying. Stop using words that hurt. Start using words that help.

stop using words that hurt.

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Ad Council

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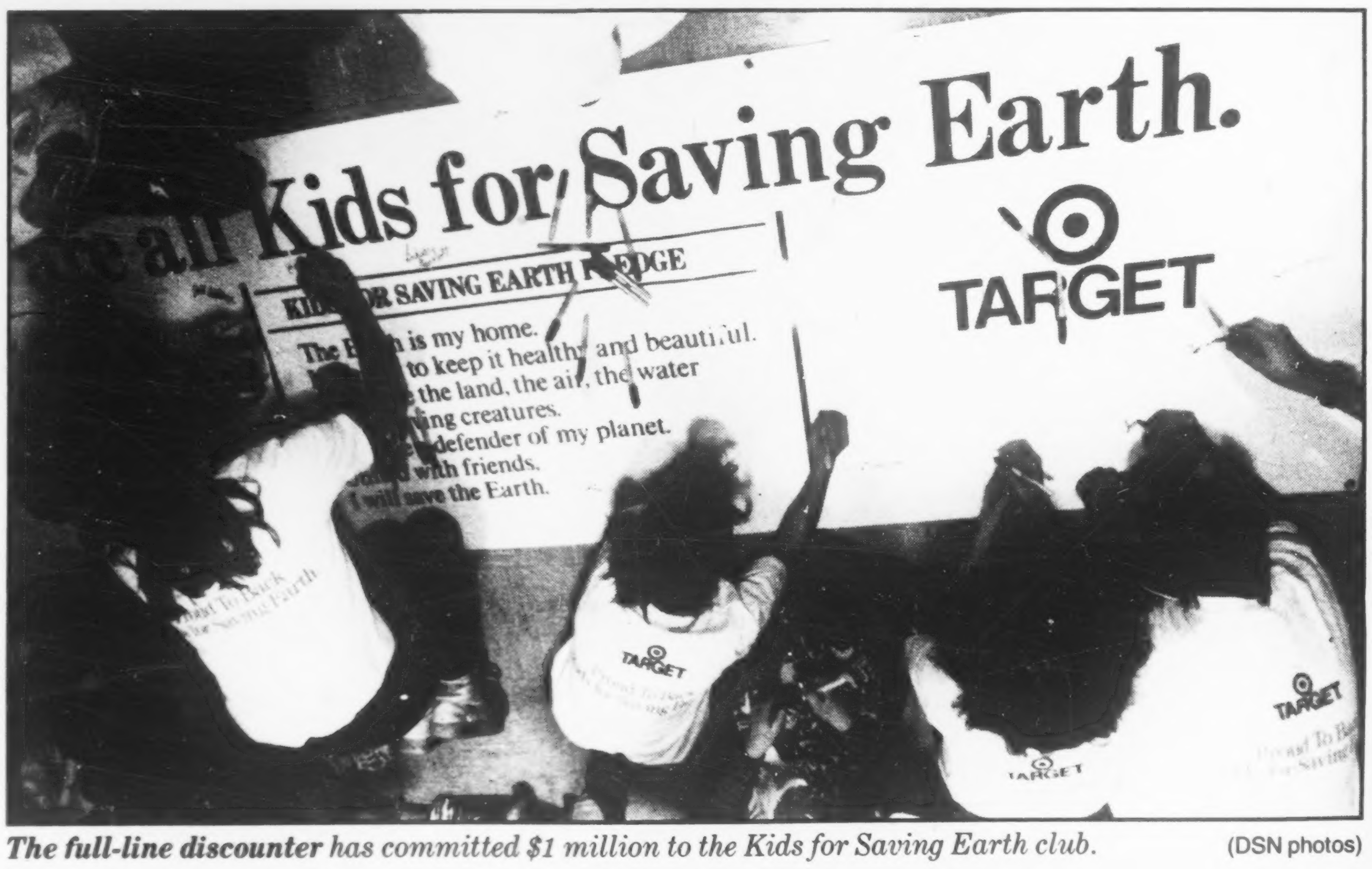
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to keep it healthy and beautiful.
the land, the air, the water
creatures.
defender of my planet.
with friends.
will save the Earth.

***The full-line discounter** has committed $1 million to the Kids for Saving Earth club.* (DSN photos)

Ward Completes Transition to Specialty Formats

Montgomery Ward

	1989	1988	% Change
Sales (In Millions)	$5,028	$4,865	3.4%
Earnings (In Millions)	NA	130.0	—
Stores	333	324	2.8

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: Operating income (profit/loss from continuing operation, before taxes and extraordinary items).

NA: Not available

Source: DSN *research*

Montgomery Ward

***Montgomery Ward's new** full-line store, at Waldorf, Md., merges all of the chain's specialty departments.*

CHICAGO — The week of June 18 to 22 was Associate Recognition Week at Montgomery Ward and the second anniversary of the company's leveraged buyout from Mobil.

DISCOUNTING'S TOP 10

4

Celebrating with contests, special drawings for a car and vacations plus a companywide picnic, the chain had much to cheer about this year: Sales passed the $5 billion mark in 1989 and the company has successfully shed its mass merchandiser image and became the "chain of value-driven specialty stores" it fashioned for itself four years ago.

Montgomery Ward also has held onto the No. 4 spot on *DSN's* top 150 list for the second consecutive year. With sales of $5.03 billion, up 3.4 percent from 1988, the Chicago-based chain was the fourth-largest discount store chain in the nation, behind only K mart, Wal-Mart and Target.

The chain grew by nine units to 333 stores in 1989, earning $208 per square foot. Ward plans to pick up its expansion pace with 53 more units this year.

The store growth will include both its full-line version and freestanding specialty units such as Auto Express, Electric Avenue and its newest format, Kids Stores.

In fact, Montgomery Ward opened two more Kids Stores in April, for a total of seven, and announced plans to include the children's specialty units in all future full-line stores.

Currently, 18 Kids Stores are planned for the next two years. The first five Kids Stores "met or exceeded expectations," according to Bob Frechette, vice president and general merchandise manager, children's and men's apparel.

In October, Ward opened the first of five freestanding Kids Stores in the Chicago area. Averaging 13,000 square feet to 15,000 square feet, the Kids Store is expected to generate $225 per square foot on merchandise ranging from newborn to boys' size 20 and girls' size 14, with a mix of national brands and private label including the chain's new Raggedy Ann and Raggedy Andy merchandise.

Montgomery Ward seemed to solidify its direction for the 1990s last spring when it debuted its off-price mall format in Tucson, Ariz. The 102,000-square-foot unit looked like a mall from the outside. Two of the chain's power formats, Electric Avenue and Auto Express, appeared to flank the main store as if the three were separate entities.

The two specialty store formats were identified on the outside of the building with their own separate, front entrances that frame the main door giving the impression of a mall and not a single store.

Ward's other specialty formats, The Apparel Store, The Kids Store, Gold 'N Gems and Home Ideas were given separate entrances off the main part of the store. Music Express, a record store, and Doctronics, a CE repair store, were also included as was Pro Jersey, a sports apparel chain, a leased operation.

Recently, Montgomery Ward updated the Tucson format. On the exterior of the "mall" a gabled roof line adds a distinct look to the store. Inside, more national brands have been added, including three new celebrity lines. Ward has added a line of misses sportswear and casual related separates by tennis superstar Chris Evert under the name Chrissie; top fashion model Elle MacPherson now has a line of signature sportswear and fun/youth-oriented intimate apparel; and TV actress Connie Selleca has put her name on women's career apparel at Ward.

In addition, the store manager's office and customer services have been pulled from the back reaches of the unit to a more prominent place within the store for greater customer access.

Montgomery Ward's specialty store strategy evolved over time from its 1986 introduction. Everyday low prices and its first specialty department, Auto Express, debuted in 1987 followed in 1988 by the expansion of EDLP, the introduction of Electric Avenue and the slashing of 10,000 prices. In 1989, EDLP on all brand name merchandise was implemented.

Expanding its version of value-oriented specialty retailing grew in 1989 in part to several acquisitions or equity arrangements: its equity stake in Office World and the leasing of space in Auto Express to Quaker State quick lube centers and SAFELITE auto glass replacement shops.

Montgomery Ward purchased an equity position in now defunct Office World, an office supply superstore based in Great Neck, N.Y., last year in an effort to tap the exploding home office supplies market. At the time of the arrangement, company chairman Bernard Brennan said the purchase reflected the chain's strategy of expanding further into specialty retailing.

In April, Office World was merged into OfficeMax, a Cleveland-based office supply superstore chain, and Ward's equity position was transferred in the acquisition.

Last year Ward began leasing space in some of its Auto Express centers to Quaker State for Minit-Lube Centers. The program began with the Auto Express unit in Livonia, Mich., where Quaker State installed the first of 24 Minit-Lube Centers. Ward also began leasing space to SAFELITE, Wichita, Kan., for auto glass replacement shops at about 50 Auto Express centers.

Other internally generated expansion ideas also blossomed in 1989, particularly the Kids Store and Wardrobes, a revamped mix of men's, women's, intimate apparel, shoes and accessories.

Geared for the middle market and priced to either meet or beat discounters' prices by about 20 percent, Wardrobe's merchandise is grouped by look and style and concentrates on displaying color stories.

Wardrobes was designed to create a niche for Ward by developing a program that falls between department stores and discount retailers in product selection and service. Brand name merchandise was beefed up, upgraded and regrouped to create the department. Ward also is now using a major private label manufacturer to help it establish some key fashion areas.

Apparel was probably the last major area to be addressed after Ward decided to be a chain of value-driven specialty stores. Towards that goal, Ward reintroduced junior sportswear, added young men's apparel, and shifted to a self-service shoe department complete with more athletic brands.

And most recently, Brennan announced some organizational changes designed to support the company's growth plans.

Chief among the new appointments was the return of William J. McCarthy to Ward as president of marketing.

GOLD'N GEMS
PA GARNET
AMETHYST
TOPA

Gold 'N Gems, San Diego, is another of Ward's specialty formats that have been unveiled in the last two years. (DSN photo)

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Ames Has Rocky Road Ahead in '90 After Failing to Digest Zayre Stores

DISCOUNTING'S TOP 10 5

ROCKY Hill, Conn. — 1989 will go down as a *very* bad year for Ames Department Stores, a year in which the formerly profitable chain lost over $200 million. And fiscal 1990 opened with a bankruptcy petition, the resignation of its ceo, mass store closings and a new management team.

Will that be enough to set the chain back on its feet? Reaction from observers is mixed, but most think that if everything goes well, the company could return to profitability in two years or so. But it will be a painful two years, and the chain that finally emerges will look almost exactly like the Ames that bought up G.C. Murphy and Zayre—a smallish regional operation with 300 or so primarily rural stores.

The Zayre acquisition, of course, bears most of the blame for the fall of Ames. The Massachusetts-based chain had been on the decline for a decade, its stores getting shabbier and shabbier and its relationship with coveted brand name manufacturers going through a similar process. By the time of the purchase, many of its stores were primarily in the promotional paper towel and toothpaste business, with virtually no apparel and other soft lines sales. And, according to vendor sources, Zayre was also afflicted with chainwide fraud and employee-generated shrinkage.

New chairman and ceo Stephen Pistner has pledged to cut operating costs to the bone, remerchandise Ames stores and eliminate waste. And observers feel he can do most of what he says he can. Ames has re-established relations with its vendors and paid many past-due accounts, resulting in a healthier credit line. The company missed most of the prime spring selling season, but should be in-stock for back-to-school next month.

But cash flow will continue to be a problem, and the company still has crippling debt associated with the Zayre purchase. John Geisse, chairman of The Wholesale Club and an Ames board member until he and former Ames chairman Herb Gilman were overruled on the Zayre acquisition, noted that the new Ames will look a lot like the old Ames, but $800 million poorer.

That debt load, even with the protection of the bankruptcy court, will severely limit Ames' ability to maneuver, and could easily prolong its stay in Chapter 11. And, historically speaking, the longer a company remains in Chapter 11, the less likely it is to emerge from bankruptcy.

Ames has benefited from relatively strong vendor support. Many vendors said that the account is just too important to lose, and have therefore been cooperative with reorganization plans. Nevertheless, the next six months will be vital to Ames as an ongoing force in discounting.

Ames

	1989	1988	% Change
Sales (In Millions)	$4,986	$3,363	48.3%
Earnings (In Millions)	(228.0)	47.2	—
Stores	680	820	(17.1)

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: Operating income (profit/loss from continuing operation, before taxes and extraordinary items).

Source: DSN *research*

Price Club Sets Steady Growth Pace

DISCOUNTING'S TOP 10 6

SAN DIEGO — Price Club will step up its growth program this year, augment development plans for its store sites and continue to expand its innovative specialty services to more membership warehouses.

The moves are designed to maintain its leadership role as competitors have become more adept at cloning the club's concepts.

Price Club's preeminent position is evident from the measurements in which it ranks No. 1: $104 million sales per store; $1,160 sales per square foot; 225 receivable turns; 19.4 inventory turns; 45.7 percent return on inventory; and $436.100 sales per employee.

Price Club will open at least 11 stores this year and 10 more are slated for 1991, compared with six in 1989. This year's units will include:

- The chain's entry into Colorado with stores in Aurora and Westminster, pitting it against Pace.
- Four to six stores in the Northeast, a supposedly 'understored' region that is now being blitzed by other clubs. Price, which already has four stores in Virginia, three in Maryland, two in New York and one each in New Jersey and Connecticut, will add two more each in Maryland and Virginia and one in New Jersey, New York, Pennsylvania and Rhode Island.
- Another two in California, currently home to 28 Price Clubs. The duo reflects the firm's effort to fill in markets in its home state which has seen other warehouse clubs open over three dozen units during the past few years.
- Two Midwest sites, representing Price Club's debut in that region, by the end of '91.
- At least two more Price Club Canada warehouses to expand to eight the operation jointly owned with Steinberg Inc., a Canadian retailer.

Opening new stores—almost all of which are owned by the company—is just one element in Price Club's real estate strategy. Its other component is developing company-owned sites into shopping centers, with other high-volume, low mark-up specialty retailers as co-tenants.

The company pursues this effort through P&K Associates, a joint venture with Kornwasser & Friedman, a Los Angeles-based shopping center developer. The venture is involved in the planning, development or management of about 30 real estate projects that include a number of Price Club sites which are being transformed into power centers.

Price Club noted in its annual report that the real estate activities utilize its expertise in property acquisition to obtain sites "in excess of the needs of a Price Club" for shopping center development that will produce "rental income from lessees who, to some extent, capitalize on the customer traffic generated by the company's warehouse."

The shopping offered by these other merchants is part of Price Club's drive to strengthen its attraction to members.

These services, many of which were pioneered by the company, include tire centers (in all clubs); optical centers (already in most West Coast stores and being phased into East Coast units); one-hour photo labs (in a number of California clubs and going into other units), an office supply delivery service, hearing aid centers, pharmacy departments and fresh baked pizza kitchens, all being tested in some clubs.

Price Club

	1989	1988	% Change
Sales (In Millions)	$4,901	$4,053	20.9%
Earnings (In Millions)	191.9	156.6	22.5
Stores	47	41	14.6

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: Operating income (profit/loss from continuing operation, before taxes and extraordinary items).

Source: DSN *research*

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Sam's Expansion Is Key to Wal-Mart's Success

DISCOUNTING'S TOP 10

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BENTONVILLE, Ark. — Wal-Mart plans to continue the explosive growth of its Sam's Wholesale Club arm this year by:

- Adding 25 to 30 new stores to boost Sam's count to at least 148 clubs, double the number of any other warehouse club chain;
- Debuting units in four new states to expand Sam's coverage to 29 states, almost triple that of any other membership warehouse club.

Sam's growth this year will be funded by $223 million in capital expenditures for new stores and updating of current units with such new services as scratch bakery and fresh meat and produce departments. The capital expenditures are an 85.8 percent jump from the $120 million budgeted last year and reflects the greater contribution Sam's is making to Wal-Mart's overall retailing success.

Sam's expansion should add at least another $1 billion to its sales—the increase for each of the past five years—and push its volume to $6 billion, clearly making it the leading membership warehouse in sales and stores.

Last year, the 123 Sam's in 25 states generated $4.8 billion in sales, a 26.4 percent rise from $3.8 billion in 1988.

These statistics alone, however, don't indicate Sam's interrelated impact on parent Wal-Mart or the membership warehouse industry.

Sam's growth has maintained the wholesale club's record of accounting for a larger portion of Wal-Mart's sales each year. Last year, Sam's share was 18.8 percent of Wal-Mart's total $25.8 billion, compared with 1989, when Sam's slice was 18.5 percent of the parent's $20.6 billion.

Sam's entered Iowa, Michigan, Nebraska and New Jersey last year, as part of Wal-Mart's relentless attempt to make both its discount store and wholesale club operations continental chains.

As part of this nationwide push, Sam's expansion during the next 18 months will focus on the Northeast, one of the regions that has been bare of any Wal-Mart presence. Sam's strategy calls for the chain to open at least 20 clubs in the 11-state Middle Atlantic States/-New England region.

Sam's entered the region last year by opening a store in New Jersey with another due this year; warehouse clubs are also planned for Pennsylvania (10), New York (six), and at least one each in Delaware, Maine and New Hampshire.

Sam's

	1989	1988	% Change
Sales (In Millions)	$4,841	$3,829	26.4%
Earnings (In Millions)	131.0	100.0	31.0
Stores	123	105	17.1

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: Operating income (profit/loss from continuing operation, before taxes and extraordinary items).

Source: DSN *research*

Toys 'R' Us Still Going Strong While Competitors Falter

DISCOUNTING'S TOP 10

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NEW ROCHELLE, N.J. — 1989 may have been a tough year for most toy retailers but not for Toys "R" Us, the nation's No. 1 toy chain.

Toys "R" Us recorded double-digit sales and earnings gains last year, outpacing all other toy retailers. TRU is a multibillion dollar retailer in an arena of much smaller operators. Its closest rival, Child World, recorded $830 million in sales last year from 174 stores.

The nation's top toy retailer reported $4.313 billion in sales last year, up 18.3 percent from 1988, from 404 toy units. Excluding the international toy store division, TRU's sales were $3.773 billion, an increase of 16 percent.

Toys 'R' Us

	1989	1988	% Change
Sales (In Millions)	$4,313	$3,647	18.3%
Earnings (In Millions)	493.7	417.9	18.1
Stores	404	358	12.8

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: Operating income (profit/loss from continuing operation, before taxes and extraordinary items).

Toys "R" Us sales include international toy stores (U.S. only toy store sales were approximately $3.8 billion in 1989); store counts are U.S. only.

Source: DSN *research*

Operating profits surged 18.1 percent to $493.7 million last year. For just the U.S. toy stores, operating profits rose 14.6 percent.

TRU was the eighth-largest discounter in the nation in 1989, dropping one notch from No. 7 in 1988. The top toy retailer was pushed back one spot because of the ascent of Ames, a result of its Zayre acquisition.

At a time when many of its competitors are struggling to record even the smallest sales gain while holding onto profitability, what distinguishes Toys "R" Us from the rest?

Well, most retail observers marvel at how Toys "R" Us continues to gain market share while making investments in technology, store renovations and inventory. They also attribute TRU's success to the chain's dedication to its mission statement of offering the broadest selection of toys at the best price.

TRU, it seems, has not taken its No. 1 status for granted.

The toy chain plans to add between 45 and 50 new stores this year including its first units in Denver, Salt Lake City and Hawaii. Last year, the chain also announced plans to enter the New York market with its first location at Herald Square across from Macy's. The 70,000-square-foot store will be located down the block from Lionel Leisure's Kiddie City.

TRU also recently opened its first fully automated, computerized distribution facility in Rialto, Calif., near Los Angeles. The 1.2 million-square-foot DC uses supermarket industry techniques and employees can work five or six levels up, said Sosnick and Lakner, adding that initial results look "very promising."

Maintaining its premier status in the United States is important to TRU, but so is conquering the global toy market.

TRU plans to open 25 toy stores abroad this year followed by 35 new units in 1991 including stores in Spain, Italy and Japan, new markets for the toy retailer. In 1992, TRU will open in the Benelux countries—Belgium, The Netherlands and Luxembourg—and Australia.

In 1989, TRU opened 22 stores abroad including France and Taiwan, for a total of 74 units.

For TRU the massive economic changes sweeping Europe offer numerous expansion opportunities. TRU will open five to six toy stores in Japan in 1991. And through TRU's joint venture with McDonald's of Japan, TOY—expansion should be rapid, about 20 units.

This year, TRU International will reach $750 million in sales, a 40 percent gain from the $534 million in 1989.

TRU International accounted for 11 percent of total sales in 1989, up from 1 percent five years ago.

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Service Regroups, Sheds Non-Catalog Ventures

Service Merchandise

	1989	1988	% Change
Sales (In Millions)	$3,307	$3,093	6.9%
Earnings (In Millions)	$111.8	$121.3	(7.8)
Stores	334	317	5.3

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: Operating income (profit/loss from continuing operation, before taxes and extraordinary items).

( )—loss

Source: DSN research

NASHVILLE, Tenn. — Service Merchandise entered the '90s by putting its house in order.

The thrust of this effort: refocusing the firm's operation on its core, successful business, catalog showrooms.

The key move last year was the $500 million-plus recapitalization of the company that:

- Paid a $10 a share special cash dividend "designed to enable . . . shareholders to realize a significant portion of the current value of their shares in cash, while at the same time retaining their equity interest in the company." That financial move cost the cataloger about $506.5 million.
- Saddled the company with over $600 million in additional debt that was meant to discourage any unfriendly takeover. Service had been cited as a possible takeover target during the last two years when a number of other retailers such as Best Products—then the leading cataloger—were acquired in leveraged buyouts and/or raids.
- Caused the cataloger to carry out a top-to-bottom analysis of its costs to develop tighter controls on expenses. The aim was to boost merchandising and operational efficiencies to increase the cash flow necessary to pay off the higher debt.

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Once Service executed its recapitalization, it focused on its cataloger operation by selling its 11-store Computer Shoppes chain. The company had retained that non-catalog business after phasing out its money losing 27-unit Mr. HOW home center chain during 1985 and 1986, a move that resulted in Service's only red ink bottom line during the past half decade in 1986.

The company enhanced its catalog operation last year by opening a distribution center in Orlando, Fla., that serves four Southeast states. It's Service's fifth such facility and the chain is considering opening a distribution center in the Midwest to join the warehouses in Montgomery, N.Y., serving 13 states; Nashville, serving 11 states; Dallas, serving 10 states, and Henderson, Nev., serving four states.

The cataloger also completed installing its satellite communication network to enhance its data processing/communication system. This retail technology includes electronic registers and scanners in all stores to capture sales, provide faster authorization of credit cards—including Service's own two-year old charge card—and Silent Sam terminals that allow shoppers to see if the merchandise they want is in stock prior to placing an order. Silent Sam can suggest alternative items for goods that aren't available.

Service uses its retail technology to augment its jewelry merchandising by adding regional selections to its chainwide offering, promoting the additional items in catalog inserts.

The total of Service's recapitalization and refinement of its operation was the opening of 17 more showrooms to reach 334 stores—most in the industry—along with a 6.9 percent increase in sales to $3.3 billion from $3.1 billion but a 5.8 percent drop in net income to $71.9 million from $76.5 million.

The lower earnings, which are still higher than any other showroom chain, are directly due to the recapitalization, which included $30.3 million in incremental interest expense debt and added $15.6 million to selling, general and administrative expenses or a 0.5 percent increase in SG&A.

The recapitalization costs haven't slowed down Service's planned growth in 1990, which should see the cataloger reach $3.7 billion in sales.

The cataloger, which has stores in 37 states and faces most other showroom operators, plans to open at least 13 new showrooms this year. These units—all of which are going into states where Service already has stores—include three additional stores in Virginia—rival Best Product's home state—which Service entered last year with a quartet of stores. The company already has four showrooms on the drawing board for next year, two sited for Virginia.

Service this year is also acting to "reduce the level of its recapitalization-related bank borrowings as quickly as possible," said Raymond Zimmerman, chairman and president. It easily met a $20 million payment due in December 1989 on the $360 million Secured Term Loan portion of the recapitalization and utilized excess cash flow this past March to prepay another $35 million of that loan.

The $140 million bridge loan part of the recapitalization is being refinanced through the just completed offering of $90 million in First Mortgage Secured Notes due in 2000. The remaining $50 million is to be converted this month into a term loan due in 1995.

On the operational side, Service is starting to probe Quick Response, specifically developing electronic data interchange arrangements with vendors. It's also probing the updating of Silent Sam into an interactive terminal that will place orders and accept credit cards as payment for merchandise, eliminating the need for shoppers using this system to go to an order/payment desk.

Costco Targets Northeast for Opening of Six Clubs

KIRKLAND, Wash. — Costco Wholesale Corp. will participate in the assault on the Northeast this year with the first of six clubs opening in West Springfield, Mass., this fall.

Like other warehouse club chains, Costco has identified the Northeast for expansion. So far, the Kirkland, Wash.-based chain has targeted Massachusetts, Connecticut and New York for expansion. The planned units follow the chain's new regional office which opened last September in Massachusetts.

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So important is Costco's move into the Northeast that a new management team was created to guide the expansion. At the helm of the Northeast operation is Franz Lazarus, senior vice president of operations.

When Costco arrives in Massachusetts later this year, it will feature the company's newest prototype, complete with a greatly expanded fresh food department.

At Costco's annual meeting in January, club president Jim Sinegal officially proclaimed the company's test of fresh food departments a success and said the chain would roll out the new program to all its stores by the end of 1991, including the clubs it plans to open in the Northeast.

At the time of the announcement, Sinegal called the fresh food program—meat, produce, deli and bakery—a value-added feature for club members and a profitable undertaking for Costco. Costco started testing fresh meat and produce, deli and bakery in 1987.

To accommodate the newly expanded departments, Costco added an average of 20,000 square feet to its clubs, bringing the unit size to about 120,000 square feet. By the end of this fiscal year, Costco expects to operate fresh food departments in 55 of its locations. A complete chainwide roll out is planned.

Besides fresh food, Costco said it also would expand the number of optical centers and pharmacies in the chain, to 13 and 40 respectively, from six and 17, respectively.

Overall, Costco will add approximately 100 new sku's this year through continued upgrading and increasing of its selection of jewelry, books and videos, apparel and consumer electronics. Despite these increases, the chain will record a net loss of about 100 sku's, to 3,400 from 3,500, according to chairman Jeff Brotman. The reduction is due to the chain's continued process of refining its merchandise offerings.

Accomodating Requests

Reacting in a timely fashion to merchandise requests by either adding or paring inventories to accommodate sales activity and customer/vendor requests has been cited by some Costco observers as one of the company's many strong points.

In January, Costco announced that it would no longer sell automobiles since the five Puget Sound clubs that were selling Hondas were not performing well. Honda, reportedly, was not pleased with the pricing.

On June 16, Costco closed three west Florida locations, Tampa, Clearwater and Palm Harbor, and in the fourth quarter will close its Lauderhill, Fla., warehouse in conjunction with a new warehouse opening in nearby Delray Beach, Fla.

Costco

	1989	1988	% Change
Sales (In Millions)	$2,943	$1,989	48.0%
Earnings (In Millions)	55.5	31.1	78.5
Stores	62	50	24.0

Sales: Total U.S. store volume from apparel, general merchandise, groceries.

Earnings: Operating income (profit/loss from continuing operation, before taxes and extraordinary items).

Source: DSN research

Costco's 1989 sales, ended Sept. 3, 1989, totaled $2.943 billion, up 48 percent from 1988's $1.99 billion. Comparable store sales rose 25 percent for the 12-month period. Operating income for the year was $55.5 million, up 78 percent from the $31.1 million recorded last year.

Costco opened 13 new warehouses during fiscal 1989, all in existing markets. In addition, the wholesale club chain opened nine pharmacies, two optical shops as well as 24 fresh food departments.

In fiscal 1990, Costco's plans included opening 12 new warehouses and the continued expansion of in-house pharmacies, optical and fresh food departments.

So far for fiscal 1991, which begins in September, Costco's plans to crack the Northeast beginning with the West Springfield location, and a total of 10 to 14 warehouses overall.

So far, it appears that the Northeast expansion program is the cornerstone of the company's fiscal 1991 program. To finance the Northeast expansion and help fund growth in other markets, late last year Costco initiated a public offering of 2.5 million shares of stock. In 1989, it also boosted its bank credit line from $150 million to $250 million to help fund its expansion.

Last spring Costco called for the redemption of its convertible subordinated debentures to allow the then 53-unit warehouse club chain to improve its balance sheets, company chief financial officer Richard Galanti told *DSN*. By taking a $108.5 million outstanding bond and prompting conversion of the debt to common stock, Galanti said Costco was able to reduce its debt, increase equity and save money on yearly interest payments. He said Costco was able to make the move at that time because its stock was trading about $5 above the $18 redemption price of the debentures, making the conversion to stock especially favorable for bondholders.

Canada's Chains Face Growing Uncertainties

(Continued from page 1)

in the early '80s, is Canada's second-largest chain with $2.2 billion in sales last year. Montreal-based Zellers is third with $2.15 billion, while K mart Canada—including K mart, Bargain Harold and Kresge —rounds out Canada's Billion Dollar Club, with just under $1.3 billion in 1989.

The relative calm of the Canadian retail landscape could be jarred considerably as more U.S. retailers and formats invade the Maple Leaf nation.

The most recent entry was made by The TJX Cos., operator of the 367-unit T.J. Maxx and the 577-unit Hit or Miss off-price apparel chains. Less than a month ago, TJX bought Toronto-based Winners, a five-unit off-price chain.

Bernard Cammarata, president and ceo of TJX, noted, that "Winners provides us with the unique opportunity to develop the off-price family apparel concept in Canada . . . to date, the potential [of off-price retailing] has not been capitalized upon."

Specialty stores including Toys "R" Us, The Price Co., Costco and HeadQuarters Office Supplies, are deepening their roots in Canada while tapping sales from long-time indigenous chains like Canadian Tire and Zellers.

Nonetheless, Canadian Tire reported a 12 percent increase in sales last year, related in part to the opening of six new stores. Zellers volume inched up 2 percent. The other chains had single-digit percentage sales growth last year, with the exception of Montreal-based Giant Tiger. The retailer reported a 10 percent sales gain during 1989 when two Giant Tigers opened.

Consumers Distributing experienced minimal sales growth, but the company is in the midst of converting a number of its Toy City stores into "Plus" stores. The CD Plus locations combine the catalog showroom format with Toy City's format. The company converted seven Toy Citys to the Plus format during 1989; two are planned for this year.

Top Canadian Chains

Chain	**Sales*** (In Millions)		**Percent Change**	**Earnings*(Loss)** (In Millions)		**Percent Change**	**Number of Stores**		
	1989	**1988**		**1989**	**1988**		**1/89**	**1/90**	**Proj. 1/91**
Canadian Tire Toronto	$2,897	$2,597	11.5%	NA	NA	NA	408	414	NA
Woolco[1] Toronto, Ontario	2,203	2,113	4	125	103	17.6	354	345	352
Zellers Montreal, Quebec	2,150	2,100	2.3	$179.5	$142.2	26.2%	NA	212	218
K mart Canada Ltd.[2] Brampton, Toronto	1,293	1,235	5	NA	NA	NA	319	311	318
Consumers Distributing Canada Toronto	760[3]	740[3]	3	NA	NA	NA	225	230	230
Towers Dept. Store Toronto	572	533	7	NA	NA	NA	48	51	51
Giant Tiger Ottawa, Ontario	163	147	10	NA	NA	NA	52	54	NA
Metropolitan Stores (MTS) Pointe Claire, Quebec	70[3]	67[3]	4	NA	NA	NA	90	90	NA

** In Canadian Dollars*

[1] *Includes Woolco, Woolworth and Robinson stores.*

[2] *Includes K mart, Bargain Harold* and *Kresge variety stores.*

[3] DSN *estimate.*

NA — not available

Source: DSN *research*

The country's Goods and Services Tax (GST), which goes into effect on Jan. 1, 1991 (see *DSN*, May 7) could both help and hurt natives' attempts to compete against U.S. retailers, especially apparel retailers like T.J. Maxx.

On the one hand, the new tax has forced retailers here that do not have scanning or other POS technology to make the investment. That is because the new tax law requires new equipment to handle a two-tier tax structure.

But the GST also places a heavy tax (7 percent) on apparel, an industry which had previously been tax-free. The tax on apparel comes at a bad time since the category has been in a slump for the past two years.

Target Probes Picking System

(Continued from page 1)

The proprietary system works as follows:

PCS Technologies' software is used to produce the label that lists the goods to go into each store's break-pack tote or carton. As a tote is conveyed to each DC rack, the label is scanned and a PCS Technologies terminal lists the quantities that are to be picked from the soft goods stocked at that fixture.

The totes are conveyed through the DC, fills with the specific amount of merchandise at each picking station, then sealed and directed to the truck that will deliver the cartons to one of Target's over five dozen stores served by the Fontana DC.

As merchandise is manually placed into the carton, the picker enters the quantity into the terminal to update the order for the store and the DC's inventory listing. The picker can adjust the quantity going to each store in case there isn't enough merchandise on-hand to fill all the orders.

The information on the actual quantities being shipped is used to produce a manifest and to inform merchandisers on the status of each order.

The discounter expects to be able to process more goods through the DC in less space with the Pic Pak system than with its current manual pick and pack process. The retailer also foresees more accurate shipments to stores as the system simplifies the picking and packing process.

Rayon Dominates NAMSB Show

(Continued from page 6)

Though the aisles seemed busy, both manufacturers and retailers gave mixed reviews to the attendance. Many admitted the earlier January show was more popular, and that because of the New York locale, many smaller, local men's shops came while the big players stayed home.

Despite the seemingly smaller turnout and the higher-end price points associated with the NAMSB, some retailers made an appearance.

"We're always looking for new sources," said Dennis Sargent, dmm, Alexander's, though he found that much of the merchandise was similar to what he saw at the last show. This time around, Sargent noticed a growing trend toward natural fiber in addition to the continuation of the "wild rayon shirts."

Alexander's has been doing well in young men's with the shirts and with loose, baggy trousers, which Sargent called "Bobby Brown pants" after the singer that popularized them music videos.

"More of the same rayon print shirts and beachwear," was the way one buyer from California-based Ross Stores summed up the NAMSB Show. He reported that this was a "just looking" trip, for him as well, with much of the fall merchandise already allotted to Ross' 161 stores.

Apparel Firms Start to Clean Up

(Continued from page 5)

one of the most important environmental concerns is the sometimes hazardous way denim is processed to create the most fashionable, trendy jeans. Some of the chemicals discharged from jeans finishes wreak havoc with local water supplies. A number of jeans manufacturers are trying to address this situation.

Acid washing is one of the processes that requires the waste water to be treated before it flows back to the local water reserve. A procedure that returns the natural pH balance to the water, per federal regulations, is used by Gitano and other manufacturers, according to Dabah.

Bonjour also responded to environmental concerns, even before launching its environmental marketing campaign. The firm wrote to all its contract manufacturing facilities around the world, urging better environmental practices.

"We asked them to be more responsible," said Charles Dayan, president, Bonjour. "We suggested biodegradable soaps, asked them to recycle the water they use whenever possible and to treat water with dye in it before it goes into the local water." Dayan pointed out however that these remain suggestions rather than demands. "Some of the manufacturing facilities are in Third World countries where environmental safeguards are expensive or difficult to implement," he said.

At Wrangler, both finishing and laundering procedures are under scrutiny. A task force is considering the effects of these processes on local water supply and how better engineering or machine design can solve these problems. More immediately, according to Angelo LeGrega, vp and gm, Wrangler America, the company is changing over to recycled paper for all ticketing and to using biodegradable bags for shipping and distribution.

TSS Still Looking to Sell a Department Store

(Continued from page 6)

hold its final going-out-of-business sale. Goldstein is now hoping the going-out-of-business sale will commence by early August.

Currently, TSS is still operating as a discount department store at its 145,500-square-foot store in Melville.

Aside from Melville, Hempstead is the only other store awaiting final sale. The unit is being purchased by Breslin Realty, which agreed to acquire five Long Island stores from TSS. The sale should be finalized by the end of July, Goldstein said.

Breslin leased or sold four of the five TSS units it acquired to K mart Corp. Those units are located in Middle Island, Levittown, Sayville and Babylon. K mart spokeswoman Michelle DeLand said the stores will open as K mart discount stores this fall.

The fifth unit acquired by Breslin, a 240,000-square-foot store in Hempstead, was first reported to be leased by K mart but now Breslin is buying that unit, and another tenant, whose identity has not been disclosed, will occupy it.

TSS filed for Chapter 11 in December 1989 and sold most of its store leases at an auction last January. At the time of the bankruptcy filing, the chain had 14 stores.

Aside from the four units K mart will soon occupy and the unit Marshalls and Bed, Bath & Beyond will move into, Caldor acquired one site, in Middle Village, Queens, and The Home Depot, the Atlanta-based home improvement warehouse chain, bought the Elmont unit. Alexander's acquired one Bronx location. The remaining stores are being developed into various retail formats including flea markets.

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Melville Buys 330-Unit Circus World Chain for $95M

(Continued from page 1)

Bee had already targeted—and the potential for greater sales.

Robert Huth, Melville's cfo and executive vp, said that Kay-Bee will quickly install point-of-sale equipment in all Circus World stores. The chain is not equipped with POS and that has caused in-stock and merchandising problems, said Huth. The new system should be in place chainwide by the end of the first quarter of 1991.

For Greenman Brothers, the sale of Circus World provides the company with a large cash infusion and the opportunity to expand other areas of its business. The sale also marks the company's exit from the retail mall business but not from retailing.

Stanley Greenman, vice chairman of the board, chief executive officer and treasurer of Greenman Brothers, told *DSN* that Greenman Brothers would remain a toy wholesaler and retail operator of its five-unit Playworld toy store chain. Greenman Brothers also will continue operating its three leased toy departments.

Playworld stores are 15,000-square-foot freestanding units. Circus World, like Kay-Bee stores, are 3,500 square feet and are in malls.

Selling Circus World was "opportunistic" for Greenman Brothers, said Greenman. "Melville approached us and after analyzing the business, return on investment and other factors we decided we could not pass it up."

Greenman said the company was not looking to sell the chain prior to Melville's offer.

Buying Circus World was opportunistic for Kay-Bee as well, said Huth, noting the quick and cheaper process of acquisition rather than building from scratch.

The quick assumption of 330 new stores also gives Kay-Bee more time to plan its expansion into strip shopping centers, said Huth. Currently, Kay-Bee is in just a few strip centers.

Kay-Bee's Toy Works chain of freestanding toy stores will not be affected by the Circus World acquisition. Kay-Bee will continue to expand Toy Works, now with about 50 units, at the rate of 12 to 15 stores a year, said Huth. In 1991, however, Huth said Kay-Bee will probably slow its overall growth to permit it time to digest the acquisition.

Last year, Greenman Brothers—No. 5 on *DSN*'s Top Toy Specialty Chains list—reported sales in its retail division of $178 million, up 9 percent from $163 million in 1988. Operating profit was $5.5 million, up from $5 million the year before.

Kay-Bee, the No. 3 chain in the toy business last year, reported sales of $724 million, down 7.2 percent from $780 million in 1988. Operating profit was also down at Kay-Bee. In fact, the chain experienced a 13.9 percent store-for-store sales decline for the year. The decline in profit followed 10 years of increases and industry observers expect Kay-Bee to return to profitability this year.

SGMA Buyers Benefit From Shows' New Timing

(Continued from page 5)

ing Goods Manufacturers Association (SGMA), which was cranking up its own February production, the Super Show.

The 1991 NSGA show is set for July 22 to 25 and for the next three years will be held the first week of August.

The NSGA show got a boost last year when the SGMA merged its fall show, once held in New York, into the NSGA show. The SGMA Super Show, in Atlanta, is thriving, and both trade groups claim their shows are the world's largest sporting goods expo.

By most measures of vitality, World Sports Expo is also booming:

- It expects to draw as many as 90,000 attendees this year, compared to 83,722 in 1989;
- The vendor waiting list grew to 600 this year from 400;
- Nike is taking all 75,000 square feet of the upper mall of McCormick Place East;
- Wilson, Rawlings and Bike all have moved their exhibits to ballrooms, freeing 12,500 square feet for others;
- Net square footage of exhibit space increased to 520,000 from 424,500 in 1989.

Buyers can expect to find a continued surge in new licensed, cross-training and fitness equipment employing air resistance technology.

To accommodate the increase in licensing, the World Sports Expo has added a satellite pavilion on the Showcase level of McCormick East.

With sales softening in '90, buyers expect to find a lot of special buys and closeouts from over-stocked vendors.

"Shoe vendors are killing each other," said Joe Koricki, vp of Irving Sports Shops, Springfield, Va. "Shoes are all over the place."

With sales soft in all categories, "a lot of vendors are overstocked," Koricki said.

Since Irving's has kept a tight rein on inventory for its 19 stores, "we'll be in a position to buy," Koricki said.

Modell's Sporting Goods, New York, also will be seeking special buys and closeouts for its 32 stores, said Mitch Modell, coo. Modell's is especially interested in two categories that drive its business, hockey, football and college licensed goods and exercise, he noted. "Moving the show to July from October was an important step," Modell said. "We can now get our first look at next spring's footwear early on. By October, everything already was in place."

In footwear, look for L.A. Gear, No. 3 in size, to introduce its answer to Reebok's Pump, an inflatable sneaker it dubbed the Regulator. Another L.A. Gear introduction is expected to be a bounce-technology, catapult shoe to compete with Nike's Air shoes.

Other new products are:

- Splash Dunk, a moveable basketball system that features a 60-gallon water tank as an anchor, from Huffy Sports;
- Star Puck, an NHL-licensed hockey puck that features a color photo of various hockey stars, from Star Puck;
- Pump It Up line extension to cross training, running and tennis shoes, from Reebok;
- High Tech basketball that features a polyurethane coating that protects the leather from wear and tear on asphalt, from Wilson Sporting Goods;
- Ultima Classic Gold, a high-visibility, yellow volleyball for indoor play, from Spalding;
- Spotlyte, lightweight basketball, baseball and running shoes, from ASICS.

Golf, Skiing Apparel Gain

(Continued from page 5)

largest increases in 1990, both 10 percent.

Based on consumer purchases of 80,000 U.S. households, the study projected that golf apparel sales will rise to $1.6 billion from $1.46 billion in 1989. Skiing apparel sales are expected to reach $1.48 billion from $1.34 billion.

Swimming apparel sales represent the largest category, but sales are expected to be flat at $1.85 billion.

Apparel overall is expected to gain 6 percent in 1990 to $12.29 billion from $11.56 billion in 1989.

In athletic shoes, walking should enjoy the largest gain, a 15 percent increase to $1.42 billion from $1.24 billion.

The footwear category overall should increase 6 percent this year to $5.59 billion from $5.25 billion.

In equipment, golf should record the largest increase, rising 8 percent to $1.27 billion from $1.17 billion in 1989. Conversely, skateboards are expected to dive 20 percent more to $69 million from $86 million in 1988. That compares with $103.6 million in 1988.

Total equipment sales should gain 4 percent to $11.75 billion from $11.25 billion.

The survey also provides data on demographic and geographic sales breakdowns for each category, as well as brand market share and percentage distribution of purchases by price point.

Environmental Concerns Crop Up for 1990 L&G Show

(Continued from page 5)

The Andersons, Maumee, Ohio, will be looking for anything new in power equipment, particularly mulchers and shredders, said Jim Weaver, L&G merchandise manager. Mulching mowers took about 5 percent of walk-behind mower sales this spring for The Andersons, Weaver pointed out.

One example of a lower-priced mulcher is Aircap Industries' new Mastercut, 21-inch cut mulcher, powered by a 3.5 horsepower engine and priced to retail for $199.95.

Murray Ohio will introduce two push mulchers with 22-inch cuts. A 3.5 horsepower model will sell for about $200, with a 5 horsepower engine option adding about $20.

On the flip side, the popularity of mulchers caught fertilizer makers by surprise, Greenidge said. Because mulching returns nitrogen to lawns and helps condition soil, fertilizer sales will drop, he added.

In a study of composting that Mastercut is distributing, the University of Minnesota estimates that mulching would allow homeowners to skip one fertilizer application a year.

The entire area of organic, or environmentally safe, fertilizers and insecticides, will have a "significant impact in the '90s," Greenidge said.

Indeed, Safer, a leading producer of organic insecticides, has gotten so many buyout offers that it placed itself on the auction block last month in order to find out just how valuable the company is.

An environmental protection initiative measure on California's November ballot provides a "tangible indication of national sentiment," Greenidge said. It would ban almost every garden chemical made by one major manufacturer.

If it passes, discounters there would have to scramble to find alternatives, Greenidge said. And they might have to do more merchandising themselves to teach consumers how to use them.

Passage of the measure could give an instant boost to Nature's Choice, a line of organic lawn and garden fertilizers that Northrup/King is introducing, he said.

Made of composted chicken manure, Nature's Choice will retail for about twice as much as an equal amount of nutrients from chemical fertilizers.

In green goods, consumers continue to shift toward larger sizes, say a three-gallon shrub over a one-gallon and toward perennials from annuals. Perennials turn slower than annuals but they carry margins about twice as high, he said.

As for emerging trends, aquatic gardening, pond liners, pumps, plants and fish are hot in garden centers. Small, regional retailers that can move faster than the giants could do well in these areas, said another gardening consultant who asked to remain nameless. A 4-foot by 8-foot pond liner and pump sells for $200 to $300 and can run to $500.

Another trend discounters can jump on is small space garden accessories, such as terra cotta jars from Thailand, at $20 to $50. With fake-clay knockoffs selling in the $15 to $20 range, price points are feasible for discounters.

At Louisville, buyers from Gibson's Discount Centers, Dodge City, Kansas, will be looking at mulchers and organics, even though they haven't caught on in the agricultural heartland.

"Organic fertilizers (such as Nature's Choice) are years down the road," predicted buyer Clyde Sober. Gibson's, the chain name for Chaffin Inc., doesn't carry mulching mowers, Sober said. "We'll look at them this year," he said, but Gibson's will buy only one model, if any.

Expo '90 expects to draw 15,000 buyers and merchandise managers this year. Indoor exhibition space will total 270,000 square feet, while outdoor demonstration space will total 500,000 square feet.

After Drought, L&G Up 5 Percent

(Continued from page 5)

Helping to repair the damages of drought and unusually hot temperatures to their lawns, U.S. households spent an estimated $5.7 billion last year, a 6 percent increase from $5.3 billion in 1988.

Spending for insect control also set a record, increasing to $1.05 billion from $880 million in 1988 and ahead of the $979 billion for 1987.

On the downside, fewer households spent for shrub care, even though drought killed many shrubs, even mature ones. The number of households participating declined 12 percent to 27 million from 31 million in 1988. Even though per household spending rose to $53 from $45 the previous year, total spending dropped to $844 million from $853 million in 1988.

The National Gardening Association, Burlington, Vt., places an accuracy of plus or minus three percentage points on its survey based on a sampling of 2,000 U.S. households.

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Ames Nears Day of Reckoning

Pistner Reveals Rx for Ailing Discounter

By Pete Hisey

ROCKY HILL, Conn. — With the valuable spring selling season a total loss, Ames will probably live or die by its back-to-school performance.

The discounter, which became the largest Chapter 11 bankruptcy casualty in the industry's history this spring, cannot afford to lose another selling season, acknowledged newly named Ames ceo Stephen Pistner, in an exclusive interview with *DSN* last month.

Pistner has assembled what is perhaps the most high-profile, experienced management team in the industry (see story, page 62), with one purpose: "to take the patient that we got off the operating table, stem the worst of the bleeding, put the patient in the recovery room, and see how we are going to return this person to health."

***Ames' Stephen Pistner**: 'I want customers to walk out of the store and say, Ames is here to stay.'* (DSN photo)

That will be a challenge. Pistner noted that Ames was in "deep, deep trouble" and first quarter figures back him up. On sales of just under $1 billion, the company lost $464 million, largely due to clearance prices and restructuring costs.

While survival is first and foremost in his thinking, Pistner did allow himself a fleeting look back at the ill-fated Zayre acquisition.

"If I had been here and they gave it to me for free . . ." Pistner left the thought unfinished, but the meaning was clear. He wouldn't have touched it.

Keeping the stores in stock will be the key to a successful back-to-school season.

According to Pistner, no merchandising changes have been made. That will come later, he said. "Don't get smart, don't get cute, don't get fancy," Pistner said. "I want customers to walk out of the store and say, 'Ames is here to stay.' "

At the same time, Pistner is determined that key suppliers

(Continued on page 62)

Herb Gilman of Ames Dead at 65

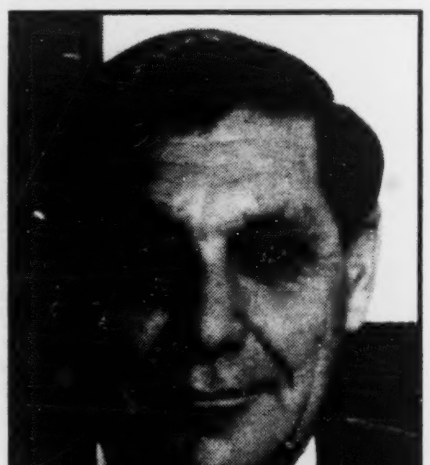
WEST HARTFORD, Conn. — Herbert Gilman, 65, former chairman and cofounder of Ames Department Stores, died on July 12 after a long bout with cancer.

One of the pioneers of discount retailing, Gilman was elected to *DSN*'s Discounting Hall of Fame in 1989. Four years earlier, he was named Discounter of the Year by *DSN* readers.

Gilman was born in 1925 in Hartford, and attended the University of Connecticut and Yale University. Trained as an engineer, he worked briefly for the forerunner of Sperry Rand. However, he soon joined his two brothers, Irving and Milton, in the emerging discount store business, working first as hard lines buyer.

Gilman joined Ames shortly before the chain opened its second store which was in St. Johnsbury, Vt., in 1958.

The first Ames store was already established, in an abandoned textile mill in Southbridge, Mass., and stocked inexpensive apparel and kitchen goods. With the addition of hard lines, Ames was on its way.



Herb Gilman

In a 1988 interview, Gilman said that the major reason for the longevity of Ames was its conservatism. "We never forgot the original concept," he said. That concept, which he noted was "so simple," was to cut costs to the bone and sell quality goods at about 35 percent below comparable department store goods.

Gilman was always careful to choose small rural markets that would draw from outlying areas that offered little or no competition to his stores.

But after Gilman ceded active control of Ames to his hand-picked successor, Peter Hollis, Ames evidently did forget that simple formula for success. In late 1988, over Gilman's objections (he later resigned from the board and director John Geisse, an ally of Gilman, decided not to run for re-election), Hollis and Ames chairman James Harmon spearheaded the purchase of the troubled Zayre discount stores for $800 million. Those stores were primarily urban in nature and tottering on the edge of bankruptcy.

Less than two years later, those stores pulled the previously healthy Ames into bankruptcy. Gilman, who had suffered through a difficult acquisition of G.C. Murphy shortly before his retirement, was irate, but kept his counsel, commenting publicly only once.

That was consistent with his nature, which was generally gracious and retiring. He worked primarily behind the scenes, and by the time he retired, Gilman had built one of the largest discount chains in the country.

"I've known and admired

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Target Wins DISC Award

DSN Editor Tony Lisanti (center) presents Target chairman Robert Ulrich and director of community affairs Susan Anderson with the 1990 DISC (Discounters in Service to the Community) Award. It was presented during a special luncheon on July 19 at the Marriott Hotel in Minneapolis. DSN has sponsored DISC since 1978. It was the second time Target has received the award. (DSN photo)

D-H Goal for Target: 300 New Stores by '95

MINNEAPOLIS — Target will open 300 new stores over the next five years, mainly in California, the Pacific Northwest, Michigan, Florida and the Southeast, and Ohio and Illinois.

Any expansion into the Northeast to become a national chain will come only after the completion of the five-year plan that will see store count grow by 75 percent to more than 700 from 407.

Word about the 300 new stores came from Dayton Hudson chairman Kenneth A. Macke during a presentation in Chicago for institutional investors.

The aggressive five-year expansion plan follows two years of similar store growth. Target opened 60 new stores during 1989 and plans to open 29 new units this

(Continued on page 62)

MARKETWATCH

Price Eyes Price Club Canada Takeover

SAN DIEGO — The Price Co. plans to acquire complete control of Price Club Canada by buying Corporation D'Acquisition Scoanav-Caisse's 50 percent share for $57.5 million. Scoanav is seeking funds to help offset its $1.1 billion acquisition of Steinberg, the Canadian retailer that together with Price Co. founded Price Club Canada in 1985. The Canadian club has six units, with two more due this fall. Price Co. reported a $1.3 million loss last year on its Price Club Canada holdings.

Smitty's Gets $50 Million Infusion

MONTREAL — Corporation D'Acquisition Scoanav-Caisse has halted efforts to sell Smitty's. Instead, Scoanav will provide $20 million in capital and $30 million in development funds over the next three to five years to update and expand the 24-unit Arizona food/general merchandise combo chain, including opening two units in San Diego. Smitty's had been on the block following Scoanav's $1.1 billion purchase of Steinberg, Smitty's Canadian parent.

Price Saver Opening Four Clubs

SALT LAKE CITY — Price Saver has opened a wholesale club in Murray, Utah, as its fourth unit in the Greater Salt Lake City market. The chain will reach the 18-store mark when its opens stores this fall in San Diego and Phoenix, the latter the fourth in that Arizona market following the unveiling of a unit earlier this year in West Phoenix. Next year, it plans to open five stores, including units in City of Vista and Sacramento, Calif.

Venture, Going Public, Opens New Units

O'FALLON, Mo. — Venture boosted its Chicago presence to 28 stores by opening units in Bradley and Crestwood, Ill. Venture will reach the 79-store count this fall by opening a unit in Dubuque, Iowa, to finish this year's four-store expansion plan. Venture now is expected to go public sometime in early August, instead of by the end of July. May Department Store Co. is offering a 14 percent, or 2.3 million share, stake in Venture at an expected price of $16 to $18 a share. May then will spin off the balance of shares to May stockholders. Venture will use the $35 million net proceeds to pay down short-term debt and improve its balance sheet. Venture will have to borrow $305 million to pay to May as its price of independence, starting life on its own heavily leveraged.

Canadian Superstore Chain Eyes 8 Units

RICHMOND, British Columbia — Great Canadian Office Supplies Warehouse plans to open units in Victoria, B.C., and Calgary, Alberta, this September—its fourth and fifth superstores–as it strives to reach its goal of running at least eight stores this year. The company, a sister firm to Long Beach, Calif.-based HQ Office Supply, already has units in Vancouver, B.C. (two), and Edmonton, Alberta.

Licensing Group Cites Target

NEW YORK — Target was named Retailer of the Year by the International Licensing Industry Merchandisers' Association. The discounter was recognized for its overall participation in licensing programs.

Philadelphia Club Count Doubling

PHILADELPHIA — The wholesale club count in this market will double by next summer as Pace Membership Warehouse, already in Hatboro, Pa., has just opened its second area store in Langehorn, Pa., with a third set to open in Deptford, N.J., on Aug. 16. The Price Club will enter the market this fall with a unit in Maple Shade, N.J., and in Philadelphia next summer. BJ's Wholesale Club is already in these two areas. Sam's Wholesale Club, now in Delran, N.J., is due to open in Philadelphia this fall.

Walton Named America's Richest Family

NEW YORK — The family of Sam Walton, founder of Wal-Mart, is the wealthiest family in America, according to *Forbes* Magazine's annual ranking. Thanks to a resurgence in the stock market, the Walton family wealth, mostly in the form of Wal-Mart stock, shot to $13.3 billion from $8.7 billion in 1989. The second wealthiest America family is the duPonts with a net worth of $10 billion. The world's wealthiest are two Japanese, Yoshiaki Tsutsumi ($16 billion) and Taikichiro Mori ($14.5 billion).

Nusim Switches Channels

Abandons Warehouse Club Idea for Home Center Chain

Joe Nusim

WHIPPANY, N.J. — Joe Nusim will not open the warehouse club chain he planned to debut next year. Instead, the former president of Makro wholesale clubs has accepted the post of president and chief executive officer of Channel Home Centers, based here.

Nusim said his plans to open a metropolitan New York-based warehouse club chain, called Metro Warehouse, had to be "shelved" due to a lack of proper financing.

"Due to the times and the problems of retailing today, it is difficult to raise money in the private sector," said Nusim, adding that his plans to open Metro "were a year too late."

Instead, Nusim became president and ceo of the 88-unit Channel Home Center chain last month, serving with former Zayre Stores executive Malcolm Sherman, who was promoted from chief executive officer to Channel's chairman.

Sherman replaced president and chairman Leon Berger, who resigned.

Nusim declined to say whether he would be bringing any former Makro executives with him to Channel. He also would not discuss the chain of events that led to his joining the home center chain.

Nusim said that he chose Channel from a variety of other opportunities that included positions in the supermarket, discount store and warehouse club business.

In joining Channel, Nusim will be working with a chain that has had its own history of hard times in recent years.

(Continued on page 61)

Chains Plan MasterCard Discounts

NEW YORK — K mart, Toys "R" Us and Montgomery Ward are among the six retailers that are joining forces with MasterCard to offer discounts on merchandise over the Christmas holidays to cardholders.

Called MasterValues, the Christmas promotion offers discounts at more than 5,000 retail outlets on a wide range of merchandise, including Mattel toys.

Shoppers at the stores will receive the promotional discounts at checkout as long as they buy merchandise on their MasterCards and present either coupons available in the store or received along with their monthly bills.

At K mart, customers will be offered undisclosed discounts on dozens of Mattel toys through coupons available in the store starting Sept. 30 and are good through Dec. 31. The coupons will be available at TRU stores starting Nov. 4 and also are valid through Dec. 31.

Coupon books will be available Oct. 15 at Montgomery Ward and will be good from Nov. 1 through the end of the year. Discounts on thousands of items will include as much as 50 percent off on jewelry and furniture.

Casual Corner, Sam Goody and B. Dalton Bookseller

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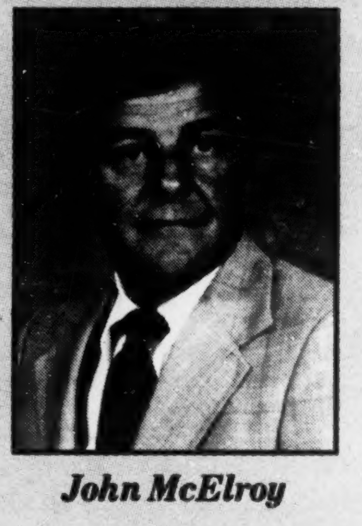
Cincotta Leaves Rose's; McElroy Assumes New Post



John McElroy

HENDERSON, N.C. — Add Anthony Cincotta to the list of top Rose's Stores executives who have left the company since the start of the year.

Cincotta resigned from the top merchandising post with the 259-unit Southeastern regional discount chain to join Grossman's, a home center chain based in Braintree, Mass. John McElroy was promoted to senior vice president and chief merchandise officer, replacing Cincotta. McElroy had been vice president of sales of marketing at Rose's for the past six years.

Earlier this year Rose's lost company president Jack Bush to Ames. Other resignations included Harold Compton, formerly senior vice president, operations and several members of the merchandising staff.

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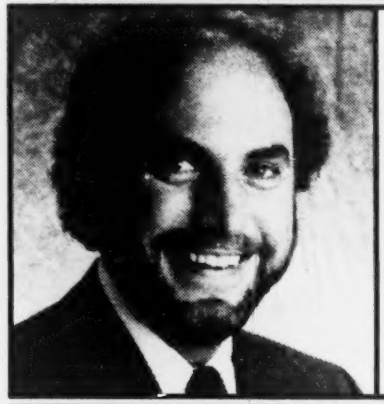
EDITORIAL

Can Dr. Pistner Restore Ames' Health?

He's brash. He's bold. He's outspoken. He's impudent. He's a perfect target for a variety of adjectives and superlatives. He's the doctor that supposedly has the cure for an ailing retailer.

He is Stephen Pistner. The patient is Ames Department Stores. And he doesn't care what you call him or what you think about him. He cares about one thing and one thing only: save Ames; save about 30,000 jobs. (See story, page 1).



TONY LISANTI
Editor

I had been to Ames headquarters in Rocky Hill, Conn., a few years ago, but it was "a kinder, gentler time." This visit was obviously different. As Doug Ewing, vice president of investor relations, escorted senior editor Pete Hisey and me to Dr. Pistner's office (it kind of has a nice ring to it), I wondered what he would disclose about his diagnosis since he first examined the patient about three months ago.

"Deep trouble," the doctor said, as we entered his office. "Deep trouble. We are literally restarting the business. The first step is to get the patient out of the recovery room. This means get the merchandise back into the stores and get the customers back in to buy.

"I've been through this five times. The basic truths about retailing never change," the doctor added. "I have no magic, but I do know what the consumer wants."

A simple philosophy, but a monumental task. Consider these factors: A weak economy throughout the Northeast, traditionally Ames' stronghold; a confused customer base; inconsistent support among major suppliers; inconsistent availability of merchandise at store level; poor first quarter results; lack of execution from headquarters to store level.

Furthermore, Ames had its own problems prior to Zayre, an acquisition the doctor admits he would not have made. He diagnosed Ames as a slow and stodgy chain burdened with antiquated systems and operations.

Dr. Pistner said there really is no story now—other than saving the business. He refuses to discuss what sent Ames to the emergency room in the first place, but believes the patient has the potential for a healthy future.

The back-to-school season is the first critical test to see if Ames has begun to respond to its treatments.

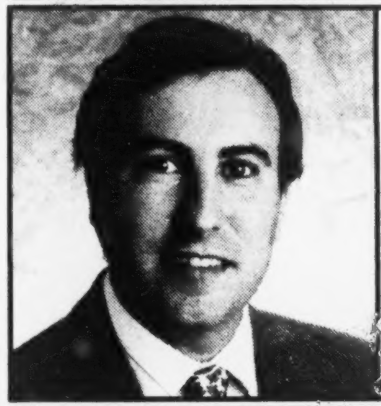
I have a feeling we'll be consulting Dr. Pistner on a regular basis. Stay tuned for a report on our next visit.

BUYERS & SELLERS

A Trio Deserving of Our Highest Recognition

The National, the new nationwide sports daily, runs a cute feature that's a real brain-teaser for trivia buffs. Called "Three of a Kind," it lumps together three seemingly unrelated personalities and asks the reader to identify the often obscure connection between them.

If *DSN* were to run a similar "Three of a Kind" it might try: Haim Dabah, Bob Ulrich and Ben Fauber. The easy part is that all three are associated with the discount industry. Dabah is president of Gitano, the seemingly omnipresent apparel maker. Ulrich is chairman of Target, the most successful upscale discounter in the nation. Fauber is former chairman of K mart, a company that has been synonymous with discount retailing for the past 28 years.



DON LONGO
Exec Editor

But, the real connection that makes Dabah, Ulrich and Fauber "Three of a Kind" is that they will be honored at this month's SPARC (Supplier Performance Awards by Retail Category) banquet. Dabah's firm was voted Vendor of the Year by merchandising execs. Ulrich was elected Discounter of the Year by readers of *DSN*. Fauber will be inducted into *DSN's* Discounting Hall of Fame.

With the exception of the IMRA convention, no other event brings together both retailers and vendors in such a constructive spirit of partnership and respect. At my first SPARC dinner, Procter & Gamble's John Pepper, the first Vendor of the Year, explained his P&G's shift from a relationship that was best described as "antagonistic" and "arrogant" to one of "trust . . . a dedication to learn, and building a strong foundation in our relationships with the retailers."

A year later, K mart chairman Joe Antonini—Fauber's successor—drew a standing ovation from the large SPARC crowd as he pledged to create an openness at K mart to work with its vendors in ways that would help both.

The success of this year's award winners is tied even more closely than usual to their progressive views on retailer/vendor relations.

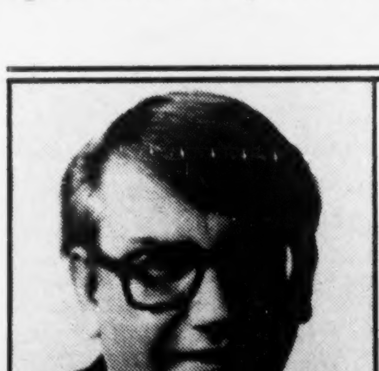
Dabah brought the shop-within-a-store concept to discounting with the opening of Gitano shops in several mass merchandise outlets. Ulrich's Target has achieved its lofty perch among discounters largely on the basis of its ability to differentiate itself from its competitors through exclusive merchandising arrangements. Both have pledged to forge even stronger ties in the future. With such forward-thinking honorees, this year's banquet, Sunday, Aug. 12, at the Chicago Marriott Downtown, promises to be the best yet!

WASHINGTON REPORT

RPM Supporters 'Help' Eastern Bloc Nations

The Bush administration has made a commitment to help Eastern Europe undertake the difficult and painful conversion from Communism to an open and competitive free market economy.

The idea is fine. The problem is with the Bush administration officials entrusted with the assignment.



KEN RANKIN

Earlier this summer our two top antitrusters — Federal Trade Commission chairwoman Janet Steiger and Justice Department Antitrust Division director James Rill—visited Poland, Hungary and Czechoslovakia to confer with officials there on "competition law."

As Steiger put it, "we have a special responsibility" to the governments of Eastern and Central Europe—an obligation to assist "in the birth of new competitive markets that will soon join the global trading system."

Trouble is, if the Eastern bloc mimics the consumer-bedamned breed of "competition" espoused by Steiger, Rill and their ilk, the people in those countries might conclude they were better off in the old days.

For example, Assistant Attorney General Rill earlier this year urged Congress to reject legislation designed to protect retailers from anti-competitive resale price maintenance conspiracies.

As he put it, such protections are unnecessary because "discounters are thriving under current laws."

Chairwoman Steiger is even more myopic in her view of free competition. She contends that, even though RPM has been repeatedly declared illegal by Congress and the courts, "resale price maintenance can often serve procompetitive purposes."

If the Eastern bloc follows the advice of Rill and Steiger and restricts the consumer's right of choice in the marketplace, will we really be able to call that free enterprise?

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Discount Store News®

VIDEO SELL-THROUGH

VIDEO VALUES UNDER $10.00
Video For Sale
VIDEO HITS
ACTION/ADVENTURE
MOVI

As video chain stores grow in size and numbers, they pose the biggest challenge to mass merchandisers who must keep their shelves well-stocked with as broad and deep a selection as possible

By Frank M. Viollis
Special to DSN

LAS VEGAS, Nev. — As a nation, Americans have taken to retreating into the inexpensive, available and always reliable world of their home video libraries. And, why not? Prerecorded videocassettes offer a great way to relax, to learn, to explore, or to reminisce. In a way, they're a very real solution to the stresses and anxieties of the last decade of the 20th century.

Here, amidst the glitter of America's playground, more than 14,000 members of the Video Software Dealers Associations (VSDA) are expected to gather from Aug. 5 to 6 for what should prove to be the largest convention in the association's history. They will discuss the various trends, issues, and problems affecting them, and the rapidly changing world of their multibillion dollar industry.

Not without some consideration has the industry's ninth annual meeting been dubbed: "Navigating the Nineties."

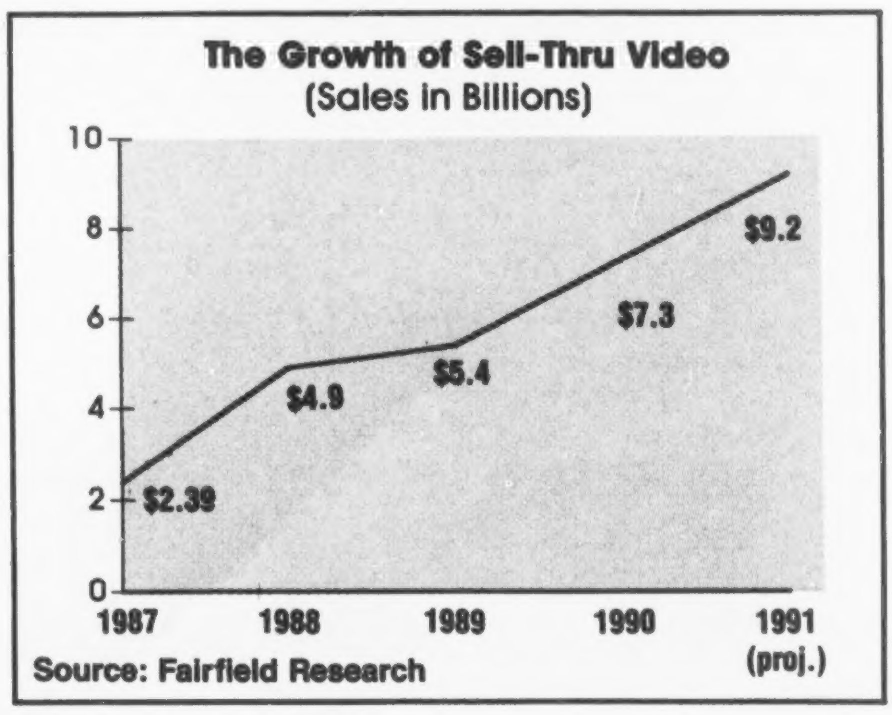
"One of our major drives [at the convention] will be to encourage independent retailers to think more aggressively in a market that's becoming more and more competitive each day," stated Dana Kornbluth, director of public relations for the VSDA.

She's right. Statistics show that the independent, stand-alone specialty video store is vanishing. In 1988, they accounted for 65 percent of all such outlets. That's excluding discount department stores, as researchers counted only those outlets that derive more than half of their income from the sale, or rental, of videocassettes. In 1989, the independent operation represented only 41 percent of the total. That's a decline of 24 percentage points in just one year. So who's picking up the slack?

Discount department stores have capitalized on the boom in sell-through video. With most handling the department through jobbers like they do prerecorded music tapes and CDs or books and magazines, mass merchants have not only garnered the largest share of the sell-through video market, they are likely to experience 30 percent to 50 percent sales gains in this category over the next 12 months.

Sell-through video is so hot at discount chains that many are reluctant to talk too much about their success.

The nation's largest discount chain, K mart, devotes an entire wall of its consumer electronics department to prerecorded videocassettes in its Oak Park, Mich., store. The store, which is the prototype for all new K marts, also cross-merchandises music video with audio tapes, sports how-to videos in the sporting goods department and children's video in the toy department. Hot titles are offered at checkouts and on endcaps, while promotional titles selling for under $4 are merchandised on four-sided fixtures within a main traffic aisle.


The Growth of Sell-Thru Video
(Sales in Billions)

Source: Fairfield Research

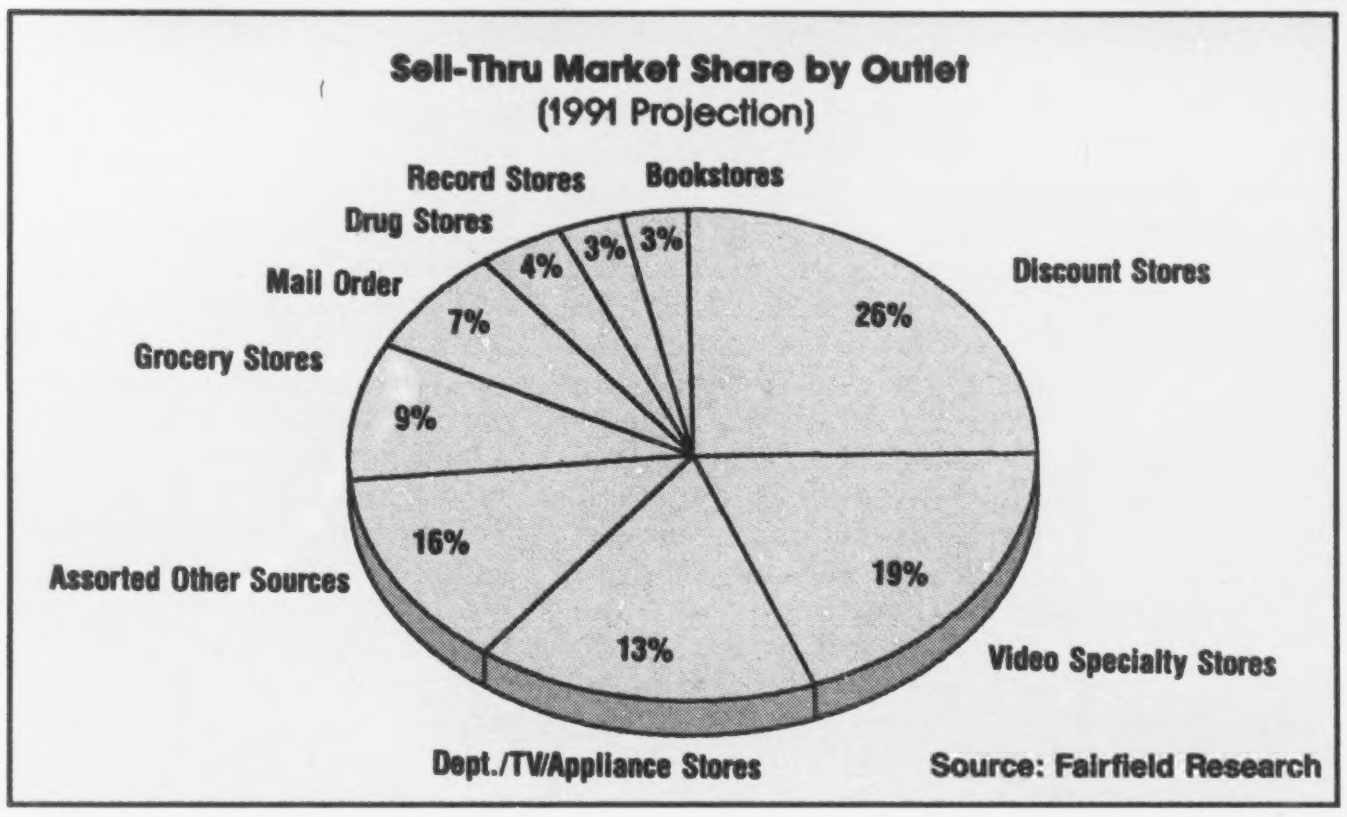
Similarly, Jamesway, the Secaucus, N.J.-based regional discount chain, recently began testing videotapes throughout its stores in related merchandise categories.

"The 'out posting' of 'specialty interest' videos [such as 'how-to', travel, or

(Continued on page 35)

VIDEO SELL-THROUGH

Video Sell-Thru Market Records Big Gains


Sell-Thru Market Share by Outlet
(1991 Projection)

Source: Fairfield Research

(Continued from page 31)

children's items] throughout the discount department store is the real future for sell-through video," said Harold Weitzberg, director of sales for Wood Knapp Video.

"Price," continued Weitzberg, "is not the proper way to measure sell-through effectiveness. It's availability that sells. Special interest is not a 'pre-sold' item, like 'hit' movies. They have to be marketed in such a way as to really tap into the consumer's desire; but, once you do, you've got a consumer who is driven by interest, not price."

A K mart spokesman said that prerecorded videocassettes are profitable but would not elaborate further. K mart utilizes a rack jobber, Handleman Co., which is headquartered in Troy, Mich., to set up and service its video department.

Wal-Mart, the nation's second-largest discount chain, also utilizes Handleman as a rack jobber. Some people question the future of that relationship in light of Wal-Mart's acquisition of Western Merchandisers, a retailer and distributor of prerecorded music, video and books. Under the reported terms of the deal, Western will spin off its retail book, music and video operations into a new company called Hastings, while its rack jobbing, warehouse and one-stop wholesaling operations will become a unit of Wal-Mart.

Auchan, Houston, *uses four-sided fixtures to display its assortment of how-to and exercise videotapes.* (DSN photo)

Target, the third-largest discount chain, got into prerecorded video sales early. "It's a significant business and growing," said Robert Guelich, senior vice president and general merchandise manager. "However, it's a very trendy business. You have to have the titles the day they're released."

Guelich and other executives agreed that with declining price points—in the $3.99 to $14.99 range—discount chains are seeing tremendous unit growth. The key titles sell in the $20 to $25 range, they pointed out.

If anyone is going to challenge mass merchants for the video sell-through business, it's not going to be the independent video store operator. More likely, the challenge will come from the video chain store (with anywhere from two to more than 20 outlets). This new major player in the rental/sales arena could do for the video business what category killers like Toys "R" Us and Circuit City have done in the toys and electronics industries, respectively.

As video specialty chain stores grow in size and number, (Blockbuster Video is said to be expanding, nationally, by as many as one store a week), so too does their buying power. That, coupled with their ability to stock ever-greater quantities for longer periods of time, will eventually affect not only the video rental market, but sales as well. In order to hold on to as well as expand market share, discounters will have to consider this.

"We see a very real need to keep our [mass merchandiser] clients well-stocked with as broad, and as deep, a selection of titles as possible," said Philip Singer, vice president, Marketing, Arrow Distributing Co. Arrow recently helped Fisher's Big Wheel, the New Castle, Pa.-based regional discounter, take its first steps toward managing and maintaining its own video sell-through department.

"With competition from the video stores, this [a broad selection] is really important. We want our client's customers to get what they're looking for, when they want it," added Singer.

Whether using a rack jobber, or not, the message is the same: carry more, sell more.

Having a wide and varied selection is of course, not the only factor necessary in maintaining a profitable profile in this marketplace.

Do you currently market such "special interest" items in one central audio/video department? Do you maximize your video profile by marketing them directly to the groups they were designed to attract? Or, are you marketing them in the way that will generate the highest possible return for your product-purchase dollar?

Tanya Steele, director of public relations for Disney's Buena Vista Home Video, contends that, "many mass merchants fail to recognize the built-in profitability of the repeat [video] customer. Our [Disney] market research has shown that children are collectors. That's why we offer many of our home video products in series format. [Like 'Mickey's Magical World' which year in and year out sells hundreds of thousands of copies.]"

"One of the points we hope to make to the mass merchants who visit our booth at the convention is that the consumer must be made aware of what's out there, and, that once that's done, be sure to carry enough of the specialty titles to meet their continuing demand," said Steele.

She added that at the convention, Buena Vista will be emphasizing its new $9.99 "acquired product" line under the Buena Vista title; disclosing the addition of 61 more titles, at $12.99 each, to its Disney line; and, highlighting the first-time releases of several feature films on the Touchstone label.

"We believe that both the mass merchants and the specialty video retailers have an important role in the world of home video rentals and sales," stated David Bishop, vice president of sales, MGM/UA. "The mass merchants were the pioneers in sell-through, just the way the video retailers were with rentals. We want to see only the best for both."

Knowing that, and how, the competition thinks, and plans, is a valuable tool in any discounter's marketing strategy.

Retailers Express Concerns

Nationwide DSN Report

The market is growing. The product line is expanding. The competition to discount stores is retreating. Sounds too good to be true? It is.

Nothing is perfect in this world, and sell-through video sales are no exception.

For one thing, price is still a factor well within the control of the studios. From price stems the retailer's margin. Most keenly affected by this are bookstore distributors. As a rule, they are accustomed to between a 40 percent and 50 percent margin. The best they can hope for is 30 percent (maybe 35 percent if they work directly through the producer as with Simon & Schuster/Prentice Hall's deal to retail over 200 Paramount titles—via catalog at first).

Obviously, profit margin is of major concern to everyone, not just the book market. As a matter of fact, even the specialty stores are feeling the need to expand this margin, and are pressing the producers for some serious price considerations.

Another factor is the problem of "returns." Not all titles sell, and no one wants to get stuck with slow-selling inventory. Here too, book distributors have a real problem, as they are used to a full return agreement with their publishers. True, bookstores are somewhat unique in this regard, but, that doesn't rule out the fact that discounters too don't want to commit valuable retail space to products that don't move (and many titles don't). Of course, the use of rack jobbers, who assume full risk on the tapes they sell, might reduce some worries in this area.

A third factor is who gets the competitive edge. A hot new title is scheduled for release. Studio advertising broadcasts the news. Pay-per-view and the airlines have shown it. Now it's time for the street. A hungry market awaits. Whoever can offer the product first, can ride high on the crest of the sales wave. In a marketplace where revenue dollars are measured in the billions, a two or three week pre-sell-through window could mean millions in sales.

Of course, the discount store operator will still have to contend with a number of sticky issues, such as:

- How to allocate the valuable retail square footage for display racks;
- Choosing whether or not to market the videos by special interest groups throughout your stores, or display them in one central area;
- Considering the ever-pressing issues of stock depth and breadth. Studies show that one of the prime consumer complaints about discount store video sell-through sales is that of too shallow an inventory;
- Dealing with the pressures of the specialty shop next door.

The retailer who copes successfully with these factors will gain a greater share of a dynamic new market.

VIDEO SELL-THROUGH

Retailers Give Play to Prerecorded Videos

By Frank M. Viollis
Special to DSN

The roar of the engines had faded into the cloud-heavy North African sky. The tarmac glistened. The echo of their footsteps floated above their heads. The future beckoned. A "beautiful friendship" was born. Who can forget such moments of movie magic? Who would want to?

Certainly not the growing number of Americans who spend billions of dollars each year (1989 estimate for "sell-through" video market sales was $5.4 billion) on prerecorded videocassettes. For them, the videocassette recorder (VCR) is a passport to better times and places, while the videocassette itself is a memory-rich rose pressed between electronically encoded pages.

These are the individuals who comprise the target market for the rapidly developing world of "sell-through" video sales—a growing market from which discount department stores are grabbing a substantial, and increasing, share of total dollars.

Based upon estimates developed by Fairfield Research, Lincoln, Neb., 66 million households in the United States currently have at least one VCR (more than a quarter of them have two, or more). That's 14.4 million more than just two years ago. Fairfield's projections indicate that by the end of next year, that number will climb by another 5 percent to nearly 70 million households.

Assuming the typical American household will consist of 2.6 people, we're talking about a guaranteed market of 182 million people for prerecorded videocassettes. And, that's not taking into consideration all those non-VCR owners who decide to purchase prerecorded videos as gifts for others.

That's 182 million consumers with a proven appetite.

For many years, this viewer market was almost the exclusive property of the specialty video store. Video prices were high (averaging $89 list, and $65 wholesale); while, rental prices were low (averaging $2 per night). They provided a cost-effective service to a hungry public.

During this Golden Age, the number of specialty home video stores swelled from 5,500 stores nationwide in 1981, to 27,000 in 1987. In 1987 alone their combined revenues were $5.5 billion in rental income (out of a total $7.4 billion), while their sales revenues hit $1.08 billion (out of $2.39 billion). Their world was good; but, nothing lasts forever.

Movie studios soon came to realize that the home video market was not a passing fad. In fact, 1982 videotape sales accounted for more of the studios' total revenues than did theatre ticket sales. This trend has continued since then, unimpaired. In 1989, videotape sales provided the studios with total revenues of $3.2 billion, 50 percent more than they realized from their box office receipts.

Obviously, in the beginning, the specialty video stores were responsible for the bulk of those sales. However, the studios were quick to realize the enormous potential of the sell-through concept, particularly through discount and mass merchandising stores.

"Sell-through" is a mass merchandising concept by which prerecorded videocassettes are offered directly to the consumer at a reasonably inexpensive price. In just a few years, the retail price of a typical video has plunged from about $89 to $29, with many selling at promotional price points in the $12.99 to $14.99 range.

Prerecorded videocassettes are offered to the consumer through a variety of channels. Discount, department, record, drug, grocery, and convenience stores have all been enlisted to expand the perimeters of the point-of-purchase arena. No longer is it the sole dominion of the specialty store, though these outlets still represent 32 percent of sell-through market sales.

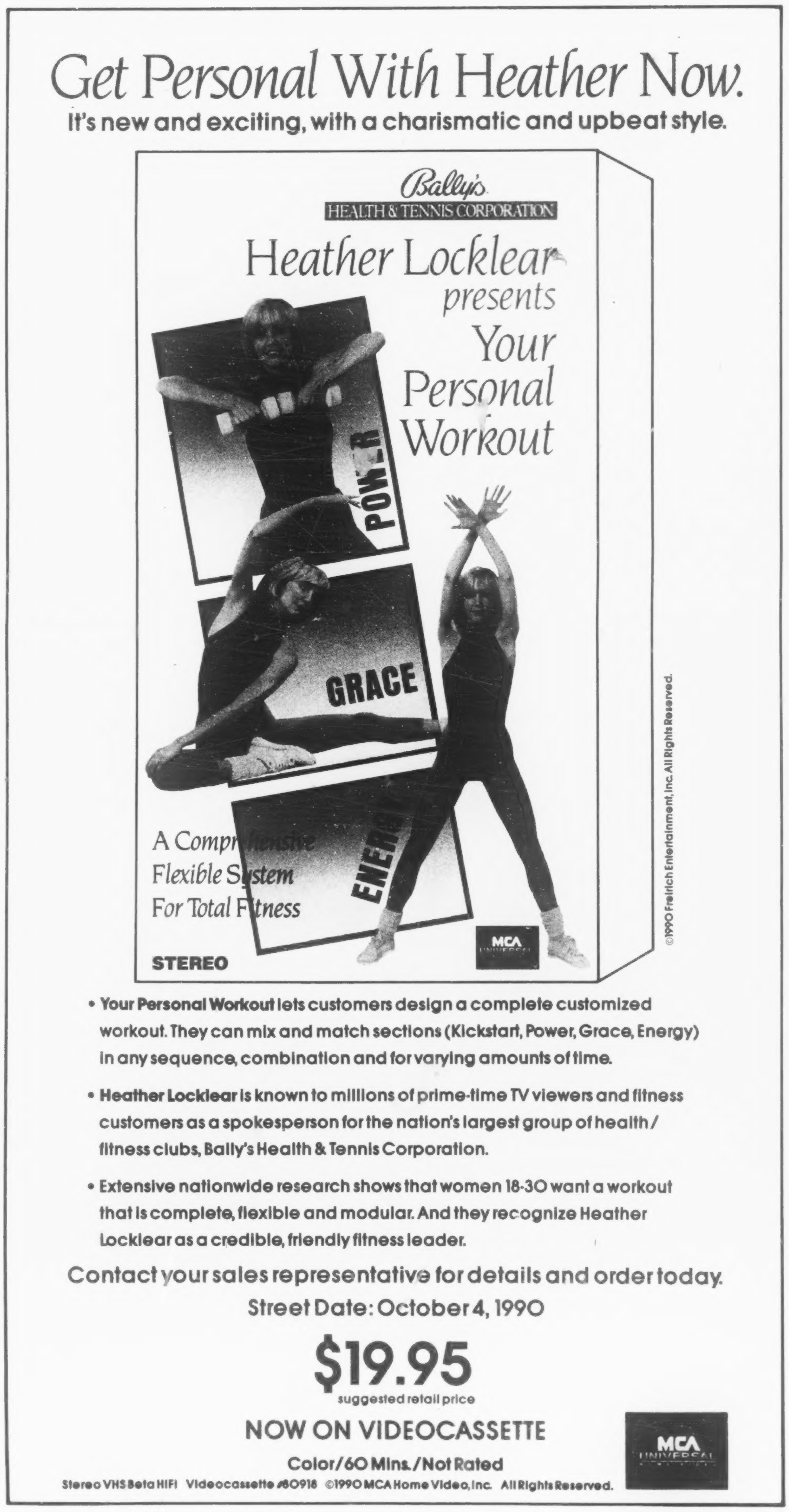
The video specialty stores are still the acknowledged kings of the rental forests with only grocery store outlets offering any kind of competition at all.

However, sell-through video just exploded when discounters and mass merchants jumped on the bandwagon.

In 1987, while still in its infancy, sell-through revenues were over $2 billion. Within a year, this number jumped to nearly $5 billion. Conservative estimates for 1991 take sell-through revenues to over $9 billion, even though the average price per sell-through title has dropped from $26 in 1987 to $18.50 in 1989.

"More titles are going sell-through, every year," commented Ted Lannen, president, Fairfield Research. "Many studios come to us to conduct market research for them," he added. "They test 'price elasticity', by title, to find out what will sell, and, at what price."

(Continued on page 38)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VIDEO SELL-THROUGH

Prerecorded Video: More Americans Play It Again

(Continued from page 36)

Quite simply, the studio's are using the Law of Large Numbers, to their own advantage. They can either sell several hundred thousand copies of a title to the specialty stores, at a higher price (and let it live out its days in the static growth world of movie rentals), or several million copies, vis-a-vis sell-through facilities, at a lower price.

At low, discount prices, the prerecorded videocassette has rapidly become an impulse purchase item. Point-of-purchase advertising tools, and display racks are now common sights in thousands of discount stores across the nation. Sell-through merchandising is in full swing.

True, "hit" movies (with action/adventure films claiming the lion's share) are the No. 1 seller, accounting for 56 percent, or $3 billion, of all sell-through revenues, for 1989.

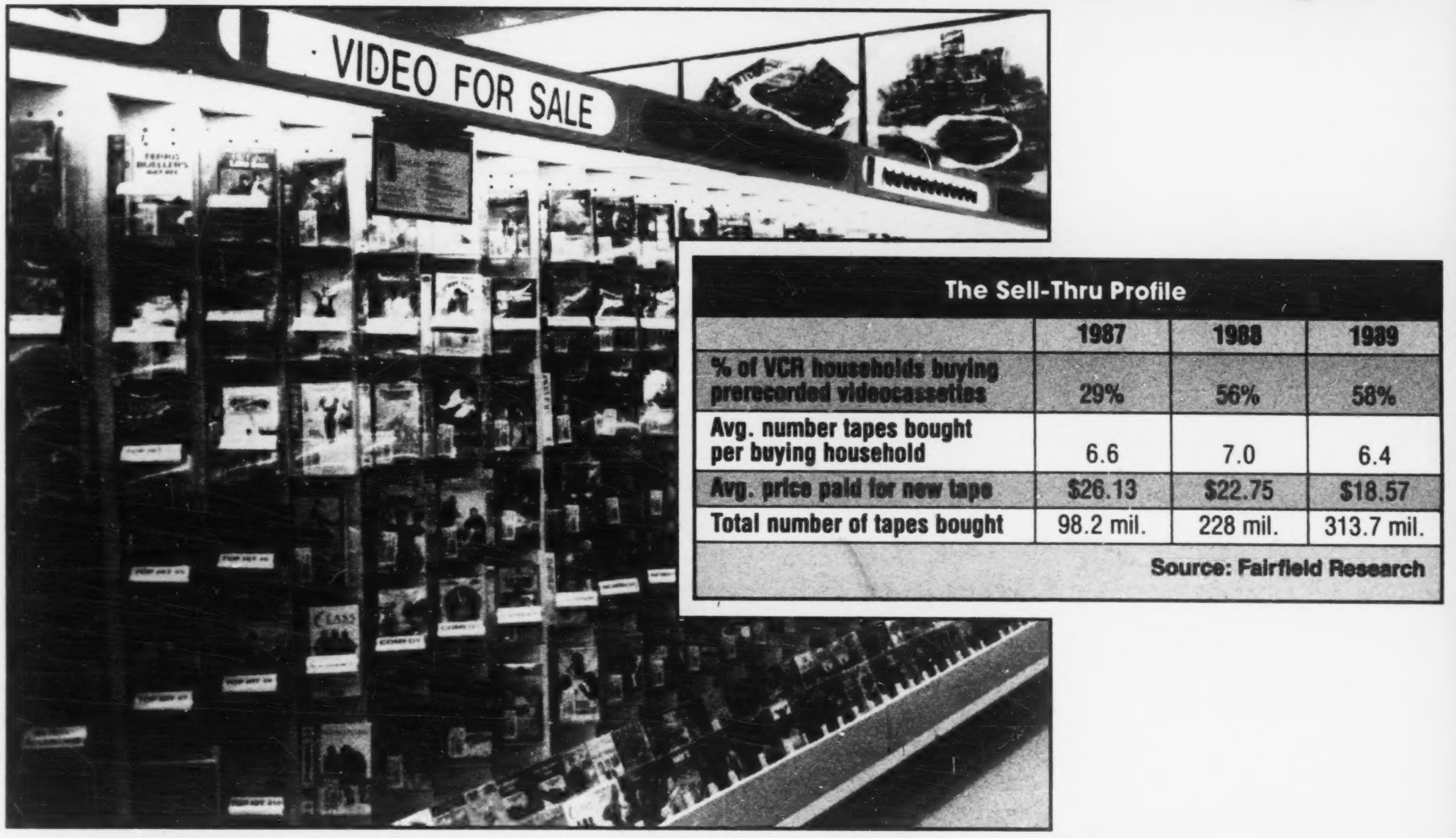
However, "special interest" features cannot be overlooked. This somewhat diverse group consists of such viewing categories as: children/family (many "hit" movies may fall into this category, such as the Disney classic "Cinderella," but are, for statistical purposes, considered part of this group, and not the movie genre) which claimed 28 percent ($1.5 billion); music, how-to/exercise, the documentaries jointly accounted for 11 percent ($735 million); with adult/X-rated, sports, etc. features rounding out the purchase profile.

The video specialty stores are still the acknowledged kings of the rental forests, with 76 percent, 1990 projections show 81 percent control of the video market in their collective pocket. Of all other channels, only the grocery store outlets offer any competition in this area. They continue to maintain about a 10 percent share of this market. No other type of retailer even comes close in the rental area. Among full-line discounters, only Meijer, Grand Rapids, Mich., comes to mind as a chain that has been successful in the rental arena. In fact, Rose's, the Henderson, N.C.-based discounter, discontinued a test of movie rentals in a Wake Forest, N.C., store last year.

The story is quite different in sell-through.

The once commanding lead of the video specialty stores (45 percent of the market in 1987) dwindled to 32 percent by the end of last year, and is expected tc sink to 25 percent by the end of this year. Conversely, discount and department stores jointly accounted for 32 percent of the sell-through market at the end of 1989 (up from 28 percent in 1987), and are expected to reach 36 percent by year's end. Grocery stores showed a modest growth profile, going from 1 percent (1987) to 5 percent (1989) in the past two years. Record, book, drug and convenience stores continue to account for anywhere from 2 percent to 7 percent of the market's total sales.

Real dollars tell an even more dramatic tale. Out of the $5.4 billion in actual revenues from sell-through video sales in 1989, discount and department stores jointly realized $1.77 billion; record stores saw $215 million; bookstores developed $107 million; grocery stores earned $322 million; drug stores were responsible for $268 million; and convenience stores finished out the year with $54 million.



The Sell-Thru Profile

	1987	1988	1989
% of VCR households buying prerecorded videocassettes	29%	56%	58%
Avg. number tapes bought per buying household	6.6	7.0	6.4
Avg. price paid for new tape	$26.13	$22.75	$18.57
Total number of tapes bought	98.2 mil.	228 mil.	313.7 mil.

Source: Fairfield Research

Short Takes: This Year's Hottest Sell-Thru Titles

Nationwide DSN Report

The sell-through market in home video is exploding, and producers are scrambling to find the most effective price point that will stimulate both rentals and sales.

At the same time, several have taken steps to discourage retailers from footballing hit titles to draw Christmas traffic.

Both "Teenage Mutant Ninja Turtles" and "All Dogs Go to Heaven" carry suggested minimum list prices, and retailers who sell below that price will not be able to collect co-op advertising dollars from the producers.

As has become usual, virtually every sell-through release features a rebate or a tie-in, placing most videos well under $20 in final cost to the consumer.

The original "Peter Pan" is coming to television screens everywhere this fall, at a new Disney price point of $24.99. A tie-in with Nabisco Biscuit Co. will add a $5 mail-in refund, lowering the effective price to $19.99 through Jan. 31.

Disney and Nabisco will sponsor an extensive TV and print advertising account to publicize the $5 rebate, including a freestanding Sunday insert in November.

"Elvis: The Great Performances" will be released Aug. 17 by Buena Vista Home Video. A two-volume set, Elvis was produced for home video only, and will carry a list of $19.99 per each tape. It will be accompanied by a compact disc and cassette release of the soundtrack, which features 27 of Elvis' hits and the most controversial Elvis recording ever: the two standards he cut at the record store/recording studio owned by Sam Phillips which led directly to Elvis' meteoric rise to stardom.

Some experts contend that the voice on the recording is not Elvis', but the controversy is sure to stimulate sales of both the video and the soundtrack. The video also includes footage from Elvis' original screen test, clips of early concerts, home movies and more.

MGM/UA Home Video will release the popular animated movie "All Dogs Go to Heaven" in late August, with an ultra-low $17.50 the minimum suggested selling price. Dealers who maintain that price will be eligible for co-op advertising fees.

The video will be shipped in a four-color merchandiser that will allow dealers to set their own price points or to use enclosed materials to promote a "hard sell" price of $19.98 after rebate. "All Dogs Go to Heaven" will have a street date of Aug. 29, and MGM will tie-in with Downy fabric softener to create a $21 million ad campaign.

Live Home Entertainment, a children's subsidiary of Live Home Video, may have the video hit of the fourth quarter, and it's pulling out the stops to promote "Teenage Mutant Ninja Turtles: The Movie." The video will be released Oct 4 at a suggested list price of $24.98. The company will spend $20 million to promote the video, including a joint venture with Pizza Hut that will include $20 worth of Pizza Hut coupons with each tape purchased.

A minimum advertised price point of $18.88 has been established for the video, with co-op advertising available to only dealers who maintain the price for the initial 30 days of release.

MGM/UA is releasing a series of hit movies, including "Runaway Train" with Eric Roberts and Jon Voigt and "Death Wish 3" with Charles Bronson at a new low $14.98 list price.

Biggs Plans For Fourth U.S. Hypermarket

(Continued from page 3)

plans growth in Midwest suburban and rural markets and expansion into the Southeast in states like Tennessee and the Carolinas. Its hypermarkets will be sited in markets "where they can make an impact as the dominant one-stop retailer," Phillips said.

Besides its center developments activity, HS Real Estate also manages Biggs Place, the hypermarket's first store opened in 1984 in Cincinnati.

Biggs' presence in Cincinnati includes two other stores, a 65,000-square-foot strip center supermarket and a 250,000-square-foot hypermarket in the Forest Fair 1.8 million-square-foot retailing/entertainment shopping center owned by LJ Hooker Developments, which is now in bankruptcy. Hyper Shoppes is closely monitoring that bankruptcy because Biggs is one of five anchors in Forest Fair and the only anchor in the Thornton Mall in Denver, which opened last fall with only a few other stores.

Hyper Shoppes is considered a likely bidder for these two centers, which were built by LJ Hooker Developments as part of the developer's grandiose scheme to become a major retailing force in the United States through ownership of malls and traditional department stores. LJ Hooker Developments, an arm of the Australian Hooker Corp. Ltd. conglomerate, acquired B. Altman, Bonwit Teller, Parisian and Sakowitz and built a number of centers before filing for bankruptcy last year.

Hyper Shoppes' original real estate venture, Biggs Place, was built as a 350,000-square-foot, off-price center, anchored by a 200,000-square-foot Biggs with such off-price specialty stores as Marshalls as tenants. After developing the center, Hyper Shoppes arranged a sale and leaseback deal with Intershop Ltd., a Zurich, Switzerland, real estate investment firm.

Biggs Place to Expand

Biggs Place, under HS Real Estate's management, is being expanded to include a 100,000-square-foot home center as a co-anchor, along with an eight-screen cinema and 50 more specialty stores.

Louisville's Middletown Station, an 80-acre, 420,000-square-foot center, will be anchored by a 220,000-square-foot Biggs with another 55,000 square feet of retail space in the enclosed mall portion. Connecting adjacent strip center-type wings will contain another 155,000 square feet of space for about 35 specialty stores.

Hyper Shoppes is funding Middletown Station through a $40 million loan from Intershop. The center's specialty tenants will include Benetton, Computer Lab, Sun Sport (which merchandises sun and wind sporting goods items)and a new Junior ready-to-wear store being launched by Petrie Stores.

Super Valu, parent of discounter ShopKo and its hypermarket arm Twin Valu, owns a 10 percent share in Hyper Shoppes. The remainder is held by a consortium of French firms: Euromarche, France's second-largest hypermarket chain, Lazard Freres & Cie merchant banker and Societe Mediterraneenne d'Expansion Commerciale et Industrielle, a shopping center developer.

Kmarts, Discounters to Open on L.I.

(Continued from page 3)

ini was an assistant store manager of the Kresge store in Bay Shore, on the Island's South Shore.

Exactly why Kresge left Long Island remains unclear, but probably the economic explosion on Long Island in the 1960s and '70s altered the success of the variety store operation and made profits elusive. It wasn't the only chain to leave Long Island. Korvettes, S. Klein, W.T. Grant, Two Guys, and recently TSS and Modell's, all are former full-line discount stores that have disappeared from the Long Island scene.

After closing out its Kresge operation, K mart decided to stay out of the market until now because of the area's high real estate costs, utility prices, taxes, and precarious labor market.

But times have changed, said Antonini, noting that K mart's emphasis on technology in recent years has helped it to cut operating expenses and made returning to Long Island realistic.

In addition, the area has a dense population, 2.9 million people, and one of the highest per capita income levels in the country, making for a positive sales environment.

Convincing K mart to return to Long Island took two decades, said Breslin. The realtor's intensive site analysis and demographic studies which lured many other retailers over the years failed to entice K mart until TSS announced its exit. This time, said Breslin, he approached K mart again and Antonini listened carefully.

Positioning K mart stores for growth is the cornerstone of the discounter's five-year, $3 billion expansion and renovation program.

Renovation Planned

By 1995, every K mart store in the chain will be renovated or moved to a better location to bring it up-to-date with the company's latest retailing plan.

Having recorded sales of $29.5 billion last year, K mart expects to do $33 billion in sales this year, $50 billion by 1995 and $100 billion by the year 2000, according to Antonini.

Caldor Beefs Up Its Presence in New York

Ledgewood, N.J., L.I. Units to Open

(Continued from page 3)

for a Staten Island site in 1981 and succeeded in 1986, he said, indicating a 10-year stretch for getting a store open.

Illustrating the real estate problems on Staten Island, only seven miles wide and 10 miles long, the West Shore Plaza mall that will feature Caldor as an anchor is located in previously undeveloped land near three refuse transfer stations and two miles from the Fresh Kills landfill, largest on the East Coast.

But the store site lies just two miles from the Staten Island Mall, the island's only existing mall. Kuller emphasized that 150,000 New Yorkers live within a three-mile radius.

Caldor will join two long-existing K mart units as full-line discounters on Staten Island. Masters, which would have been a fourth, gave up on full-line discounting at its Staten Island store six months ago, leasing two thirds of the 132,000-square-foot unit for a Pergament home center and reverting to apparel only in the other third that it operates.

The West Shore Plaza also will feature a Masters Family Fashion Center, as well as a Dress Barn off-price apparel store.

Staten Island discount store shoppers are mobile, said a chamber of commerce spokesman, patronizing two Century 21 stores in Manhattan and Brooklyn, as well as a Bradlees in Woodbridge, N.J., a $3 bridge toll away from Staten Island. Caldor also operates a Woodbridge unit.

The new Staten Island store will run 83,000 square feet, or less than the desired minimum of 90,000 square feet, Kuller said. But that's all the 260,000-square-foot mall could offer.

Only One to Close

The Eatontown store is the only one Caldor is closing this year, Kuller said. Problems with an odd, two-level layout, with the lower level a basement, rather than opening onto the mall, made it difficult to operate, he said.

Initially, the Eatontown Caldor was a Montgomery Ward and then an Alexander's.

Paul Carlucci, Caldor senior vice president for marketing, said that annual sales of about $10 million for the Eatontown store resulted in substantial losses over a number of years. Sales were well below the average of 21 other New Jersey Caldors, he said.

As part of its announcement of the store closing, Caldor mailed to Eatontown area residents a coupon offering 10 percent off on all merchandise at its nearby Homdel, Englishtown and Brick Town stores.

Nusim Switches Over to Channel

(Continued from page 2)

Now less than half the size it was just two years ago, Channel has been struggling with paying back debt from its leveraged buyout from the W.R. Grace & Co. in the late 1980s.

Intense competition, especially from the industry's giant, The Home Depot, and the company's retrenchment from numerous markets, including New York and New England, caused chainwide sales to decline by 15 percent last year, to $575 million.

Channel now operates stores in New Jersey, Pennsylvania, Maryland, Virginia, and Delaware.

Nusim had planned to open three Metro Warehouse sites by next year and have 21 units within a 50-miles radius of New York within four years. The units were planned to be 110,000-square-foot warehouses with 4,500 sku's, featuring special emphasis on home office stationery supplies and perishable foods.

Nusim had been working on a $25 million private placement and he was to have an equity position in the chain.

A retailing veteran, Nusim is a former executive vice president at Jamesway, the Secaucus, N.J.-based discount store chain which is currently without a president due to last month's resignation of Arlie Lazarus. Nusim also served stints at Gaylord's National, Spartan Atlantic department stores, and most recently, Makro U.S.A.

As president and ceo of Makro, a Dutch-owned hybrid wholesale club-hypermarket operation that opened in the United States in 1979 in Atlanta, Nusim oversaw the chain's growth to nine units and about $270 million in sales.

In 1988, Kmart purchased controlling interest in Makro (51 percent) to give the discounting giant a foothold in the warehouse club business. The discounter bought the remaining 49 percent of the chain last fall. K mart then folded Makro into its newly acquired Pace Membership Clubs and changed the name of the nine Makro units to Pace. Nusim remained with Makro through the transition to Pace and then left K mart to start raising money for Metro Wholesale.

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Vol. 29, No. 15 August 6, 1990

Chains Plan MasterCard Discounts

(Continued from page 2)

stores are the other three participating retailers.

"Research has shown again and again and again that consumers prefer cost-savings at point-of-sale to any other kind of promotional benefit," said Keith Kendrick, senior vp of marketing for MasterCard.

As a prelude to the MasterValues promotion, MasterCard is providing a $250,000 Gold Card grand prize for this September's CBS/K mart Get Ready Giveaway.

For the second year in a row, K mart and CBS will participate in a promotion linked to the fall TV schedule. Customers will be eligible to win game prizes based on questions about the fall TV lineup.

MasterCard will promote the MasterValues promotion though 40 million inserts into customer bills and a TV commercial set to air November 19. In addition, MasterCard will provide in-store POP materials and launch a nationwide public relations drive.

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It's MAGIC in Las Vegas—page 21

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SECOND CLASS

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September 3, 1990

Circuit City's new auto sound departments include cellular phones and high-end speakers. Photo courtesy of Whitney Cox

Circuit City Set to Plug In 'Dream' Auto Department

By Pete Hisey

NEW YORK — Circuit City will roll out its new auto electronics department to its more than 100 stores through holiday this year, and according to the department's architect, the success of the new look is its appeal to the fantasy lives of the chain's customers.

"If you ask 100 consumers what their ideal home would look like, you'd probably get 100 different answers," noted architect Amie Gross. "But if you ask the same 100 what their dream car would look like, the responses would probably be quite similar."

Gross, who has worked with Circuit City for nearly 10 years, was approached to design easily manufactured,

(Continued on page 101)

Market Woes Force Pamida To Postpone Sale of Stock

By Richard Halverson

NEW YORK — New discounter stock issues are falling by the wayside as the stock market reacts adversely to Iraq's unfriendly takeover of Kuwait and the U.S. military buildup in the Persian Gulf.

The latest casualty is the initial public offering that Pamida, Omaha, Neb., planned for the week of Aug. 20. Pamida hoped to sell a 50% stake of its common stock for about $58 million and use $39 million of that to reduce an onerous debt load stemming from a management-led leveraged buyout in 1986.

On the IPO casualty lists, Pamida joins Auto Depot, a second automotives warehouse venture of Robert J. McNulty. McNulty had hoped to raise $7.9 million the week of Aug. 13 to launch a new chain similar to his Southern California-based Auto Giant, to operate on New York's Long Island.

Similarly, May Department Stores Co. postponed indefinitely because of market conditions an initial public offering of an 14 percent stake in Venture, O'Fallon, Mo., for some $38 million. The money would have gone to reduce long-term debt on Venture's balance sheet before it struck out on its own.

Since the IPO is a key element in May's plan to spin off the remaining interest in Venture to May stockholders, the postponement means that Venture will have to wait a little longer for its independence.

Moreover, Office Club, Concord, Calif., had expected two weeks ago to sell 1.3 million more shares to the public to raise about $14 million for further expansion.

(Continued on page 101)

Club Wholesale Finds New Life in Office Supply Biz

By Arthur Markowitz

BOISE, Idaho — Club Wholesale has switched its business from membership warehouses to office supply superstores, and has unveiled two megastores with two more set to open.

The new stores are called Club Wholesale Office Supply Warehouses and follow the wholesale club format in being membership stores, $10 for wholesale members and $40 for executive members. But the superstores are also open to the general public, which pays a 5 percent surcharge on purchases.

The company, which is focusing its operations on the relatively untapped superstore market in the Pacific Northwest, plans to opens 12 to 14 units in that region next year.

Club Wholesale president Phil Roark said the switch in operation is "redeployment of capital" to take advantage of the greater growth opportuni-

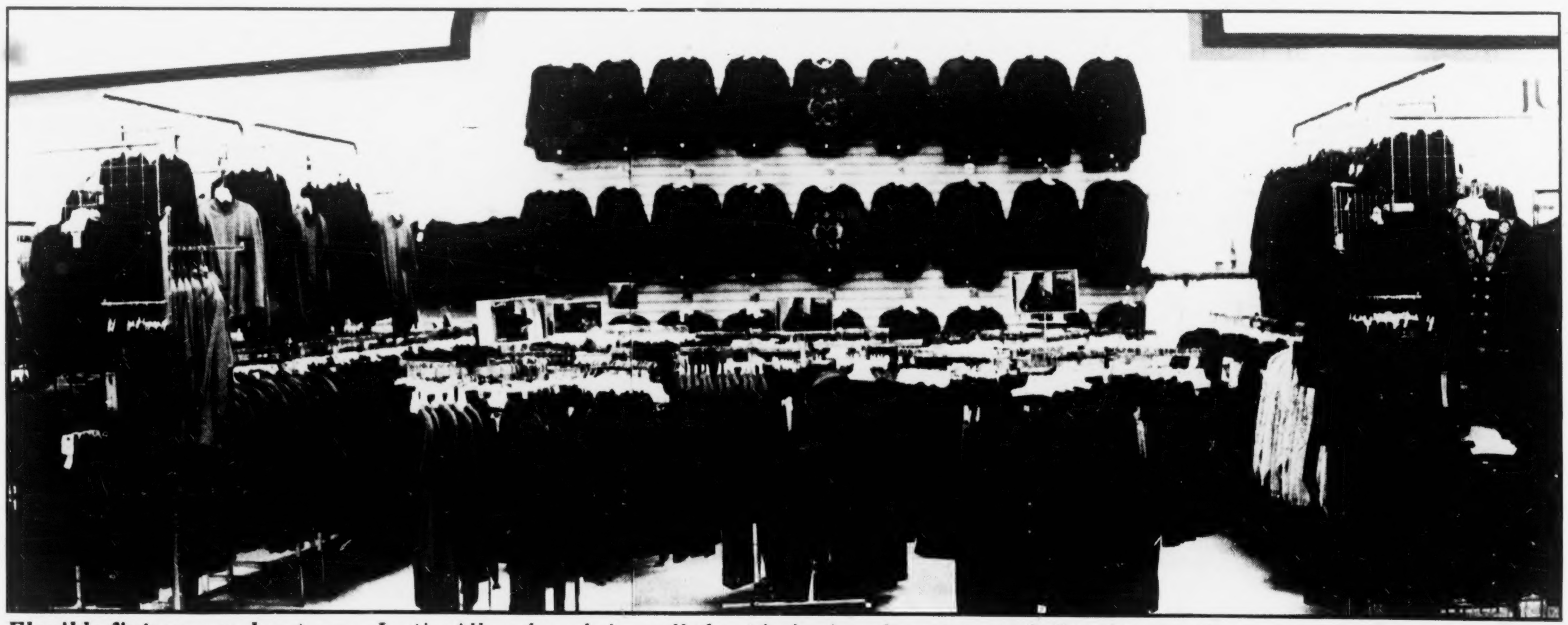
(Continued on page 102)

Justin Allen Shops Dress Up Stuarts Stores

By Jill Lettich

FRANKLIN, Mass. — Stuarts Department Stores has entered the shop concept era with the introduction of Justin Allen shops in all of its 23 stores. According to Steve Drexler, merchandise manager for the chain, the junior separates in the shop have already exceeded expectations since debuting at the store at the store in mid-August. This week, the retailer will do its first major promotion for the label, with local radio adver-

(Continued on page 12)



Flexible fixtures are key *to new Justin Allen shops being rolled out in juniors department of all 23 Stuarts Department Stores.*

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How 'Green' Is Your Hardware? page 85

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MARKETWATCH

Ames Establishes Toll-Free Vendor Line

ROCKY HILL, Conn. — Ames has established an 800 information line exclusively for the use of vendors. The toll-free number, 800-677-FACT, "will be staffed by experienced Ames executives, available full-time to answer vendor questions," said president George Granoff. "It's another way to show how much we value vendors, and want to continue to earn their support."

Sears Canada Opens Shop on Sundays

TORONTO — Sears Canada, which had opposed Sunday shopping, has opened its Ontario stores on Sunday in response to other retailers doing the same. Sears said it "experienced a shift in its balance of weekend sales where its competition had opened [on Sunday]. This would suggest that a number of Ontario consumers are and will continue to shop on Sunday." The Ontario government's law banning Sunday openings for most retailers was recently ruled unconstitutional, although an appeal on that ruling is due to be heard next month.

Office America Plans More Superstores

RICHMOND, Va. — Office America will unveil two superstores in Charlotte, N.C., in November to reach 16-units, with one in Lynchburg, Va., set to open early next year. Other megastores are projected for 1991 in Memphis, Tenn., Louisville, Ky., Dayton, Ohio, and six undisclosed markets, four in North Carolina and two in Virginia.

Bill's Keeps Store Tabs With Network

JACKSON, Miss. — Bill's Dollar Stores has opened 11 new stores, including its second Bill's within a Sack & Save grocery store, bringing the chain total to 545 in 13 Southern states. The company keeps in touch with its growing chain through an in-store satellite network, the only dollar store currently operating such a system.

Tuesday Morning Opens Four New Sites

DALLAS — Tuesday Morning, the closeout chain, opened four more stores last week, pushing store count to 126. Two of the four were in Raleigh, N.C., a new market, while Cincinnati got its third new store and Chicago got its 10th. Tuesday Morning stores operate only during peak selling seasons such as Christmas and back-to-school.

Bradlees Names New GMM, Soft Lines

BRAINTREE, Mass. — Bradlees has named Cecilia Swartz its new general merchandise manager of soft lines. She replaces John Gounaris who has left the firm. This is the latest round of organizational changes for the 130-store chain, which reshuffled its executives after George Granoff, its president and coo left to join Ames as coo.

McCrory to Join Home Health Kick

YORK, Pa. — McCrory Stores soon will be home to a new chain of Home Health Supply Centers. McCrory has signed a store concession license agreement with Nyle Home Health Supplies, Inc., a newly created subsidiary of Nyle International Corp. of Bangor, Maine. Between 15 to 20 Mini Home Health Centers and five full-service Home Health Centers are expected to be in operation within McCrory stores by mid-October. A total of 50 to 60 Home Health Centers are slated to open by Christmas this year.

Hills Awards Academic Scholarships

CANTON, Mass. — Hills has awarded five $1,000 Herbert H. Goldberger Memorial Scholarships for 1990. Each student winner was chosen for academic excellence, leadership qualities, references and autobiographical sketches. Scholarships are renewable for four years through maintaining a certain grade point average.

Retail Federation to Hold Ad Meeting

NEW YORK — The National Retail Federation will hold a conference Oct. 17 to 18 at the Omni Park Central Hotel here on "Marketing Your Store As A Brand." The two-day meeting, which will discuss the advertising and marketing techniques that can help retailers improve their market position and performance, will feature a number of case studies, including IKEA's ad program for its unit opened in May in Elizabeth, N.J. Information: NRF, (212) 244-8780. Fax: (212) 594-0487.

Can Tons of Toys Rebuild? That Is T.H.E. Question

WAREHAM, Mass. — Tons of Toys, the $27 million toy chain, has shed the financial bonds of bankruptcy protection and is focusing on rebuilding its retail toy business.

Bruno Ferretti, president of the newly reorganized company, said he has many goals, including expanding the chain. Among his many priorities are: making the company profitable; maintaining gross margins; expanding the product mix into hobby products; and providing some additional services.

Tons of Toys emerged from Chapter 11 bankruptcy last month and merged with T.H.E. Corp., parent company of Los Angeles-based Merchants West, Karl's Toys, Toys Plus and Toys Galore.

The new company is now known as Tons of Toys Inc., a 52-unit bicoastal toy chain, the seventh largest in the nation.

The two chains were merged under the Tons of Toys name since Tons of Toys was a publicly held company.

Last year, the combined toy chain had sales of $53 million, putting it ahead of Value Merchants, operators of Toy Liquidators and Toys Unlimited. Value Merchants recorded $40 million in sales in 1989. (Tons of Toys recorded 1989 sales of $26 million and Karl's Toys, $27 million.)

Under the reorganization plan, shareholders of T.H.E. will exchange their shares for a 65 percent interest in Tons of Toys. Tons of Toys shareholders received stock valued at 1.5 percent of the stock in the restructured company. Existing TOT shares will be devalued in a reverse stock split of nearly 35-to-1. Creditors will receive 20 cents on the dollar, double what they would have gotten had the company been forced to liquidate, said Ferretti.

T.H.E. chief executive Joseph Chiang is now ceo of Tons of Toys; Ferretti remains president.

During the course of the Chapter 11 proceedings, Ferretti said Tons of Toys tightened up its shrink rate, which was due more to "paper shrink than anything else," made the stores more profitable, maintained gross margins and began developing new advertising strategies for the fall.

As a merged company, with stores ranging in size from 4,000 square feet to 15,000 square feet, Ferretti said Tons of Toys will develop a chain based on the strengths of the individual parts. Among the changes now planned for is the development of a hobby department, something already successful at Merchants West.

Seven Toy Companies Charged in CPSC Suit

WASHINGTON — Seven of the nation's largest toy importers and distributors and their chief executives are being sued by the Justice Department and the Consumer Product Safety Commission for selling allegedly unsafe toys to children.

The two federal agencies said Toys "R" Us, Child World, Lionel Leisure, Value Merchants, Illco Toy Co. USA, Beachcombers International Inc., and Division Sales Inc. and an affiliate, Justen Products, have been found selling imported toys that allegedly fail to meet government safety requirements for toys sold in this county.

The suits, filed Aug. 20, request preliminary injunctions against the seven companies. The legal action is the result of ongoing investigations by the CPSC and the U.S. Customs Service.

No specific toy was publicly identified by the government agencies, but the CPSC said the toys included items that featured parts small enough to pose a choking hazard to young children as well as toys made with a very high level of lead paint. For example, a toy xylophone contained a lead content of 11 percent vs. the government's maximum of .06 percent, said Dan Rumult, acting public affairs director for the CPSC.

Rumult said the government action follows two to four years of violative activity on the part of the toy companies.

"In spite of repeated violations" the toy companies continued to sell products that violated government safety codes, said Rumult.

Recent statements by several toy company executives denied willful wrongdoing. The executives said Customs Service agents should be more vigilant and that often they spec toys that meet all federal standards but probably get altered later on.

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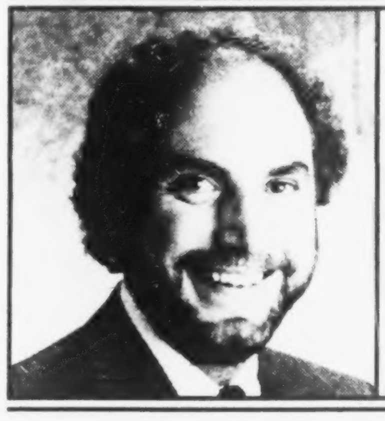
EDITORIAL

What Are Discounting's Biggest Lies?



TONY
LISANTI
Editor

I am sure you have heard the old joke that begins the "three biggest lies . . ." Over the past few months, the *New York Post*, a bold daily tabloid newspaper, launched an ad campaign centered around the three biggest lies theme.

For example, billboards stated three "lies" of the typical New Yorker, "I love being single," "I never watch television," and "I don't read the *New York Post.*"

It was a clever campaign, and after recently being delayed on a hot summer morning on the subway, I was staring at the *New York Post's* ad when my thoughts began to wander about some of the biggest lies in discount retailing!

"Just stack it on the shelf, it'll sell."

"If you get the right merchandise, it'll sell no matter what."

"Our delivery truck broke down, but we'll have the merchandise first thing in the morning."

"This is the biggest sale event of the year, really."

"The bigger the store, the better."

"This is a unique concept, it really is."

"We're meeting our profit objectives.

"I'm not worried about competing with Wal-Mart."

"A recession will help our business."

"We don't compete with anyone, particularly the warehouse clubs."

"But we're not in a recession, the economy is strong."

"Most shoppers will definitely buy perishables and general merchandise."

"The market is overstored; there just aren't any good sites available any more."

"Discount retailing is dead."

"The cold, blustery weather hurt our spring sales."

"The hot, humid weather hurt our fall sales."

"Good help is impossible to find."

"The customer is always right."

"Our customers are so loyal."

"Business has never been better, despite our last monthly earnings report."

"Oh yeah, Sam Walton and I are great friends; we go quail hunting all the time."

"But we're not a discounter, really."

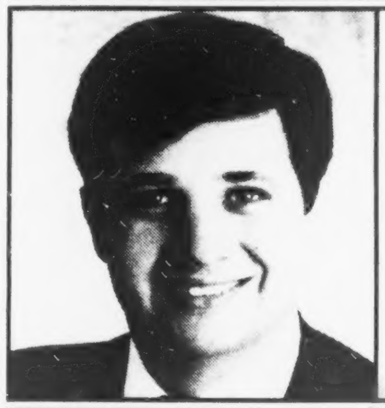
"We guarantee the lowest prices, everyday."

"I don't read *Discount Store News!*"

If you want to add to this list, fax me the biggest lie about discount retailing that you have ever heard. *DSN's* fax number is (212) 838-9487.

PUBLISHER'S VIEW

DSN Enhances Its Merchandising Coverage



JOHN
FAILLA
Publisher

For the past five years *Discount Store News* has been actively involved in strategic planning. Our goal has been to provide a platform for new ideas and programs that would continually improve *DSN*. We believe that this commitment to continued improvement is essential to maintain our position as the most valuable publication received and read in the industry today.

A recently concluded readership study of corporate officers, merchandise managers and buyers from the top 150 discount chains illustrates that our plans and ideas have been on target. The results of this study showed a greater preference on the part of these executives for *DSN* than for any other industry publication.

Today more retailers are receiving and reading *Discount Store News* than ever before and *DSN's* recent recognition as one of the "25 fastest growing business publications" (by the publishing industry magazine *Folio*) is further indication that our commitment to continued improvement is being well-received by both readers and advertisers.

In 1991 *DSN* will launch several exciting new programs. One that we are particularly excited about is the introduction of an enhanced editorial section in six of our issues that will be devoted to apparel, called *Apparel Merchandising*. The *Apparel Merchandising* section of *DSN* will offer exclusive consumer research in every issue and serve as an excellent complement to the regular apparel news coverage in all other issues of *Discount Store News*.

As apparel is growing in importance in the mass market, this enhanced editorial coverage will benefit both readers and advertisers. We are fortunate to have an excellent team working on this project. Associate publisher Paula Lashinsky and editor Jeff Arlen are well-known in the apparel industry and will be providing excellent insight and analysis.

Apparel Merchandising joins the growing list of special editorial sections—including *HomeMarket Trends*, *Home Office Merchandising*, *Food Merchandising*, and *Outdoor Living*—all published by *Discount Store News*, in our effort to remain the most valuable publication you receive.

WASHINGTON REPORT

Proposed Co-Op Ad Rules Haunt Discounters

KEN
RANKIN

Nearly twenty years ago federal antitrusters became concerned over the abuse of manufacturer co-operative advertising programs.

The Federal Trade Commission's response was to fashion a series of "Guides for Advertising Allowances and Other Merchandising Payments and Services"—the so-called, "Fred Meyer Guides" aimed at preventing the use of manufacturer ad allowances to facilitate anticompetitive practices.

One key marketplace evil addressed by the FTC guides was the use of co-op ad programs to provide discriminatory rebates to large chains. Since small retailers with little or no money for advertising could not take advantage of co-op ad allowances, the agency reasoned that such rebates were discriminatory.

To curb such practices, the guides required sponsors of co-op advertising programs to make allowances available to all competing retail customers on proportionally equal terms.

But the guides were also designed to prevent another, even more serious threat to competition: the use of co-op ad programs to facilitate illegal resale price fixing conspiracies.

To halt this practice, the agency's groundrules prohibited manufacturers from refusing to pay allowances for retail ads containing discount prices.

Nearly two years ago, FTC officials proposed sweeping changes in the guides—changes which would not only dilute the restrictions against discriminatory pricing, but also eliminate the provisions designed to protect discounters from resale price maintenance schemes.

The proposals ignited a firestorm of objections from virtually every side, prompting the FTC to scuttle most of its proposals. But it still hasn't budged on the RPM issue.

Despite the discount industry's arguments, the new FTC guides will allow manufacturers to withhold co-op ad payments to retailers who advertise discount prices.

It's another case of FTC ignoring the antitrust doughnut and concentrating solely on the hole.

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We welcome our readers' views: Letters to the editor should be addressed to: **Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022** or Fax (212) 838-9487.

Electronic Shopping Services at a Crossroads

By Arthur Markowitz

The future forms and viability of electronic retailing remains open to question despite the approximately $2 billion in merchandise sold through various TV and telephone/terminal shopping services.

A major acquisition in the TV shopping field along with the introduction of a new home computer and pending lawsuits by local phone companies seeking to expand into new service areas are among the developments likely to determine the future directions of the electronic retailing business.

But the biggest ER wild card continues to be the impact of technology. This is especially so for interactive devices that aren't being specifically developed for shopping but which will make purchasing merchandise electronically easier and more user-friendly than current technology, electronic retailing executives said.

The ultimate ER format is seen as interactive shopping using a home appliance that is a simplified combination of a TV, computer and telephone in which consumers can access information and services, including viewing full-color sound and motion presentations of merchandise and then placing orders for goods.

Current ER technology provides different aspects of this shopping through two distinct formats. They are the three-company, $1,663.4 billion passive TV shopping field and the approximately $335 million interactive terminal field composed of 13 different computer and telephone information and shopping services.

Here are updates of the various segments:

Television Shopping

This segment underwent a major consolidation last year when QVC, the No. 3 firm, acquired CVN, the No. 2 teleshopper, for approximately $464 million.

QVC is now challenging HSN for the top spot in sales and reach (number of homes able to receive the service), while the JCPenney Shopping Channel, the third player, lags far behind.

But teleshopping's future will likely be shaped by the answer to a key question: how many shopping channels do cable TV operators want to carry on their systems?

The general consensus among cable operators is that they need to devote one, or at most, two, channels to shopping to obtain maximum sales. This view reflects their experience a few years ago which saw some systems airing a half dozen shopping channels at one time but garnering most of their sales from one or two teleretailers.

The three players have each staked out a unique marketing identity that could insure each a continuing ER role. Still, there are some signs that point to a maturing of teleshopping sales that could result in further coalescence.

HSN, founder of the teleshopping field, is the most developed player, showing little gain in viewership and now boosting sales only by resorting to promotions. Bottom line results have also been sliding, moving into $14.9 million in red ink last year from $18 million in profits in 1988.

A number of multisystem operators (MSOs) carry HSN under affiliation agreements or as part of three- to-five-year-old stock option plans. These plans are starting to expire—agreements covering 12 percent of total subscribers elapsed this year—and HSN declined to state how many were renewed.

QVC's relationship with the MSOs is firmer because a number of major cable operators hold stakes in the teleshopper and its stock warrants, extending seven to 10 years, don't start expiring until 1996.

But the growth in QVC's sales through its original network has slowed, even though it increased an impressive 38.9 percent last year to $268 million, compared with a 72.3 percent rise to $193 million the previous year. On the up side, growth in repeat customer sales, viewed as a key indication of future success, has remained steady at 88.8 percent of volume in 1989, compared with 89.6 percent in 1988.

The teleshopper's earnings, meanwhile, slid to $6.3 million last year from $9 million.

When QVC acquired CVN, it announced plans to convert the CVN channel to a shopping network featuring traditional store retailers in their own programs. This effort floundered when QVC failed to receive support from store retailers. Instead, QVC leased out the former CVN channel to the JCPenney Shopping Channel.

The JCPenney Shopping Channel, successor to the unsuccessful Shop TV start-up venture, is part of the retailer's broad exploration of ER that also includes merchandising programs on online computer services. All its ER programs feature merchandise from its stores and catalog, with the TV shopping channel also showing non-JCPenney items.

JCPenney executives have said the teleshopper is "an added convenience to customers providing a new but natural next dimension in retailing." But it was expected to take about five years for teleselling to become profitable.

Computer Shopping

Prodigy's national rollout last year turned the $1 billion start-up venture, jointly owned by Sears and IBM, into the leading retailing-oriented online service. Its position is expected to be enhanced through its availability as a

(Continued on page 12)

Electronic Shopping Services

Passive Cable Shopping

Company	Sales (In Millions)		Cable Systems Carrying	Homes Passed (In Millions)
	1989	1988		
Home Shopping Network[1] St. Petersburg, Fla.	$774.3	$730.1	1,500	20.3
QVC[2] West Chester, Pa.	453.2	193.2	3,000	34.0
JCPenney Shopping Channel[3] Dallas	26.0	7.9	500	15.0

[1] Home Shopping Network viewership figures are for HSN 1 and HSN 2 programs carried by cable. Excluded are: about 27.5 households viewing HSN 2 over 12 company-owned and 18 affiliated broadcast TV stations; undetermined viewership for HSN Spree program carried by 37 broadcast TV stations; 2 million satellite dish households viewing all HSN programs.

[2] QVC volume includes sales over CVN acquired Oct. 31, 1989. Pro-forma sales for joint operation for 1989 and 1988 are $863.1 and $595.0.

[3] JCPenney owns program and handles merchandising, fulfillment; paid Shop TV Productions $15 million for TV production, cable marketing work and $1.1 million in sales commission.

Interactive Cable Shopping

Main Street, Stamford, Conn. Ongoing tests on cable systems in Newton, Mass., and Cerritos, Calif.

Computer and Telephone Shopping

Company	Revenues (In Millions)		Number of Members		Number of Suppliers
	1989	1988	Phone	Computer	
Comp-U-Card[4] Stamford, Conn.	$367.5	$271.8	3.2 mil.	80,000 [Comp-u-Store Online]	1,100

[4] Comp-U-Card revenues are for membership and service fees only; it receives 5 percent of sales of an undisclosed amount of merchandise. Comp-u-Store Online—which lists over 250,000 sku's supplied mainly by wholesalers and manufacturers—is available on most computer and telephone/terminal services.

Online Computer Shopping

Company	Number of Subscribers	Number of Suppliers[5]	Main Shopping Services
Direct Computer Service			
CompuServe Columbus, Ohio	580,000	60	The Electronic Mall[6] Shoppers Advantage
Delphi (General Videotex) Cambridge, Mass.	150,000	12	Merchants Row Comp-u-Store Online
GEnie (GE Information Services) Rockville, Md.	205,000	35	GEnie Mall[7] Comp-u-Store Online
Minitel Purchase, N.Y.	NA	10	GateWay Square[8]
Prodigy Services Co. White Plains, N.Y.	440,000	60	Prodigy
Quantum (Quantum Computer Services) Vienna, Va.	100,000	6	The Mall Comp-u-Store Online
U.S.Videotel[9] Houston	12,000	12	GateWay Square Comp-u-Store Online

[5] Suppliers include specific, identifiable retailers, manufacturers and other merchandise providers that are either accessed directly through the service or the main shopping service. Comp-u-Store suppliers are excluded.

[6] The Electronic Mall suppliers include Sears, JCPenney and Spiegel. Shoppers Advantage is Comp-U-Card's service on CompuServe.

[7] GEnie Mall includes Sears and JCPenney.

[8] GateWay Square, provided by U.S. Videotel, includes JCPenney.

[9] Service available in Dallas/Fort Worth, 3,000 subscribers, and Houston, 9,000 subscribers. GateWay Square includes local firms excluded from service on Minitel.

Telephone/Terminal Gateway Service

CommunityLink (US West)[10] Englewood, Colo.	3,500	35	All the Shops Comp-u-Store Online The Atrium
IntelliGate (Bell Atlantic)[11] Philadelphia	9,000	0	Comp-u-Store Online
INFO-LOOK (NYNEX)[12] New York	30,000	2	Shopping Mall Comp-u-Store Online
TUG (Bell South)[13] Atlanta	3,000	0	Comp-u-Store Online

[10] Service available only in Omaha, Neb.

[11] Service available in Philadelphia, 5,000 subscribers, and Washington, D.C., 4,000 subscribers.

[12] Service available in New York City, Nassau, Suffolk, Rockland, Westchester, Putnam Counties, N.Y.; Boston and Burlington, Vt.

[13] Service available only in Atlanta.

NA—not available

Source: DSN research; company reports; CableVision; Interactivity Report

Wal-Mart Sets $5 Deposit For Battery Returns

(Continued from page 5)

chains as K mart, Sears, Fred Meyer, Pep Boys—Mannie, Moe & Jack and Montgomery Ward which long have required deposits on lead-acid battery purchases in lieu of exchange.

In its new program, Wal-Mart will be emulating K mart, which began a program this May of paying $2 a battery for as many junk batteries as anyone cares to bring in and promised an $80 million commitment. No details of the Wal-Mart program have surfaced so far.

Effective June 1, the exchange pricing means Wal-Mart battery customers have to leave behind an extra $5 if they don't leave a junk battery. If they return a junker, they get their deposit back. If they don't, Wal-Mart makes an extra $5 gross profit on those sales. Such deposits range from $3 at Rose's Stores to $5 at K mart, Fred Meyer and Montgomery Ward, and $7 at Sears.

Some states require all retailers to charge deposits ranging from $3 in North Carolina (as of next Jan. 1) to $5 in Minnesota and New York to $10 in Maine. In addition, states such as California, which saw its first Wal-Mart open Aug. 1 in Lancaster, and Washington require retailers by recent laws to accept junk batteries from their customers. Minnesota requires retailers to accept as many as five junkers for every unit customers buy. New York requires two.

When customers must leave substantial deposits, either by state law or chain policy, recycling rates range from 60 percent to 90 percent, meaning as many as 90 batteries are recycled for every 100 sold. Where chains charge no deposits—and discourage customers from leaving junk batteries behind—recycling rates run as low as 2 percent.

Wal-Mart and its Sam's division sell 5 million lead-acid batteries a year, trade sources estimate.

As customary in merchandising matters, Wal-Mart declined to comment on its new battery deposit policy.

Wal-Mart operates 360 automotive centers, so customers automatically leave behind junk batteries when mechanics install replacements.

But in stores lacking auto service, Wal-Mart had no chainwide policy of accepting junk batteries from customers and no system of handling and disposing of corrosive lead-acid junkers. Prior to June 1, most of Wal-Mart's recycled batteries came from stores operating auto service centers, industry sources said.

Under the new system, Wal-Mart battery vendors, GNB for 589 stores in the south and California and Johnson Controls for 888 stores in the rest of the country, pick up junk batteries when delivering fresh ones.

Soaring lead prices, as well as the growing number of mandatory recycling laws, are driving lead-acid battery recycling. Because of their poisonous lead content, junk car and truck batteries constitute an especially worrisome environmental problem.

K mart, in cooperation with Exide, its battery vendor, is paying $2 for every junk battery that anyone brings in. An estimated 40 million junk batteries are gathering dust in American garages and basements, and K mart has offered to buy every one of them for a total of $80 million. (See *DSN*, Aug. 20, page 52).

The $2 payment, however, doesn't apply to purchasers of new batteries. K mart maintains that it already factors a $2 trade-in allowance into its battery prices. The $5 core deposit that customers must leave in lieu of an exchange is an entirely separate matter.

Exide, K mart's battery supplier, pays the chain $2.50 for every junk battery K mart takes in, so the cost is about a wash after counting administrative costs.

At today's lead prices, an average junk battery contains about $10 worth of lead, as well as recyclable plastic in the cases.

In keeping with the trend in state deposit laws, K mart increased its battery deposit last year to $5 from $3. Subsequently, its recycling rate rose to more than 80 percent from about 62 percent.

At Venture, which offers no auto service and charges no deposits, the recycling rate runs about 10 percent.

At Target, also without auto service and a chainwide deposit pricing policy, the recycling rate was an estimated 11 percent in 1989. New mandatory recycling or deposit laws in many of the states it operates in, including California, Minnesota and Washington, can be expected to increase that rate.

Justin Allen Dresses Up Stuarts Stores

(Continued from page 1)

tising planned and a free gift with minimum purchase as part of the promotion.

Stuarts currently has one Gitano shop in its New Bedford, Mass., location, the most recent Stuarts prototype. Justin Allen, however, is the only concept shop that has been rolled out chainwide.

Joseph Ettore, president and ceo, noted that the Hopkinton, Mass.-based full-liner had preliminary meetings with McGregor regarding a shop as well. Ettore was instrumental in bringing McGregor to Jamesway during his tenure there as senior vp/gmm, soft lines. At Stuarts, however, he envisions a somewhat scaled-down version that fits in more easily with the sparser look of a Stuarts department store.

Unlike Gitano and McGregor shops in other stores, which have top of the line permanent fixtures and specific floor space requirements, the Justin Allen shop is more flexible.

The shop is in Stuarts juniors department. All the shops consists of a back wall display, two grid fixtures on either side and two three-way fixtures that serve as an endcap. Rounders in the center of the shop vary from store to store. In its two Lowell, Mass., stores, one has two center rounders and the other has six. A banner in Stuarts' teal with the Justin Allen logo and the words 'style direction', call attention to the shop.

Drexler said he likes the shop concept and the emphasis it puts on brands. "We have a well developed junior customer," he said. "We wanted to create an environment that was a little more sophisticated for her to shop in."

Drexler said it was trying to give one of its other brands, Lightning Bolt, that same focus, not in its own shop, but in its own section of the junior department. "You can't get carried away with the concept, that's not my customer," Drexler said.

Alan Menegel, president of Justin Allen, brought the shop idea for the label to Stuarts earlier this year. Menegel calls Justin Allen a "sleeping giant," and has already expanded its concept to include Harts, the Ohio-based regional discount store chain. It is now discussing the idea with National Merchandising, a chain in Jacksonville, Fla.

The line includes related separates in jersey knit, woven pants and jackets, coordinating sweaters and plus size separates.

The Future of Electronic Shopping Services Is Unclear

(Continued from page 10)

built-in feature in the PS/1 computer, IBM's just introduced low-cost, full-function machine specifically targeted for family use at home. But PS/1 owners will still have to pay the $9.95 a month to receive the service.

(IBM plans to spend $30 million to promote the PS/1 as its re-entry into the $3.6 billion home computer market. The company is playing up Prodigy as one of the targeted features of the PS/1, which was introduced in 45 Sears Brand Centrals in Chicago, Dallas and Minneapolis-St. Paul.)

Prodigy, without any PS/1 push, already has 440,000 household subscribers, up from about 100,000 a year ago, but the continuing adjustment of the service indicates it hasn't found the right formula for success. Prodigy's latest efforts include positioning its service as price-sensitive—competitive with traditional retailers—rather than a convenient upscale merchant that would be used by higher income consumers who don't have time to shop in stores.

Prodigy, and all the other online computer services are banking on lifestyle changes—growing numbers of home computers, greater computer literacy, dual-income families, more working women and a greater demand for all kinds of information—together with a decline in customer service from retailers, airlines, new car dealerships, etc., as the long-range spur to the swelling use of computers for shopping and other services.

While Prodigy has targeted retailing as its key mission, shopping is a subsidiary feature to the information services that are the core objective of the other online computer services. Overall online shopping hasn't developed a critical mass, so far, so that relatively few retailers are offering merchandise on the other computer services.

Sears and JCPenney are the only major traditional retailers that are on Prodigy and most of the other online services. Both retailers view their current involvement as a low-cost learning experience and investment for what could become a major retailing venture in the future.

K mart and Lechmere have left Prodigy and few other major retailers besides Sears and JCPenney are on the online services. The few successful online retailers have found they need a dedicated order and fulfillment facility to service computer shoppers, and most traditional merchants haven't been interested in setting up such a center because of the limited sales potential.

OFFICE STOP
GUARANTEED
NEXT DAY
DELIVERY
ON ORDERS RECEIVED
PRODIGY
WORD PROCESSORS
TYPEWRITERS
OFFICE STOP
brother
PHONE ORDERS
1-800-234-LESS
SUPER SAVER MEMBERS SAVE TIME WITH

Prodigy on sale at Office Stop, *Paramus, N.J.: K mart and Lechmere have abandoned the online computer service.* (DSN photo)

Telephone Gateways

This segment is basically a retailing desert due to the limited number of consumers in a few markets that subscribe to phone gateway services.

But gateways are likely to include more shopping services in the future as a result of current challenges to past court decisions barring local telephone companies from originating information and shopping services. Right now the four teleco gateways can only provide the link between computers or dedicated telephone/terminals and information and shopping services.

Federal Judge Harold Greene, responding to a Ninth Circuit Court of Appeals' order, is now reviewing his ruling barring telecos from inaugurating information and shopping services. Greene made his decision as part of the 1984 decree breaking up the American Telephone and Telegraph Co. into one long-distance carrier, AT&T, and seven regional telecos.

The breakup, however, allowed AT&T to originate information services and the national teleco is eyeing entering the interactive shopping arena. It has probed acquiring U.S. Videotel, an online computer service, as a fast track entry into ER.

Browsing Up a Storm at MAGIC

Almost mimicking their customers and the market climate of late, many discount executives will admit only to “just browsing,” at MAGIC. The Men's Apparel Guild in California trade show, in Las Vegas through Sept. 7, will play host to 3,000 exhibitors, who hope the estimated 40,000 attendees will actually buy after browsing.

A word of advice to the manufacturers: if it's fashionable and says California lifestyle all over it, it will probably sell.

Despite a soft retail climate, MAGIC manages consistently to be a catalyst for new style trends. This year, optimism for a brighter future came in the form of a May Co. announcement that it was sending buyers to the show after a much noted absence. May is the former parent of Caldor and still operates Venture as a discontinued operation. Manufacturers took May's return to the show as a sign of better buying to come. Stores also slow in deciding their direction—Montgomery Ward was still up in the air about who was going to MAGIC in late July—finally decided to send a contingent , albeit small.

According to Richard Rusthoven, vice president and gmm of men's, three buyers from Montgomery Ward will be shopping MAGIC, with a special emphasis on young men's apparel.

“We're really looking for more California sources,” he said.

Sears will also be “just looking.” John Summers, a spokesman for Sears, noted that final decisions for the spring '91 season would probably be done prior to the trade show. “The buying commitments are generally made in advance of MAGIC, but buyers are going there to look for validation of the trends, and to renew contacts with various vendors.”

According to Summers, buyers from its men's, young men's and its kids' store will be in attendance.

The show should prove somewhat of a training ground for personnel from Bradlees, a division of Stop & Shop. In addition to a number of buyers, Cecilia Swartz, the new general merchandise manager at Bradlees, will be in attendance. Swartz replaced John Gounaris, who left the firm.

Other newcomers to MAGIC from Bradlees will include John Dvorkin, who was recently named divisional merchandise manager, men's. Both are somewhat new to the men's area. In the same reorganization, Christine Bailey was named divisional merchandise manager, children's, a post Swartz held previously.

“It [MAGIC] should be interesting,” noted Chuck Rilling, men's merchandise manager at Jamesway. “The fall show is usually better. It focuses on spring, which is better for all the California fashions the West Coast manufacturers are known for.”

Though not armed with a specific shopping list, Rilling said he and five other buyers from Jamesway would be “looking for what's new for spring.”

“This is a great place to get trend information. More than any place else, it gives us a better idea of colorations and styling,” he said. “Although we do some actual business at the show, MAGIC is more the place to pick up trends, meet with established suppliers and meet new suppliers who we might work with in the future.”

“This really is the definitive show for men's wear,” agreed Dennis Sargent, divisional merchandise manager of Alexander's. “We use it for new trend ideas and for sourcing new vendors, especially those based in California who we don't get to see often. That's really important in the swimwear and surf categories. Some of these vendors may not have New York representatives.”

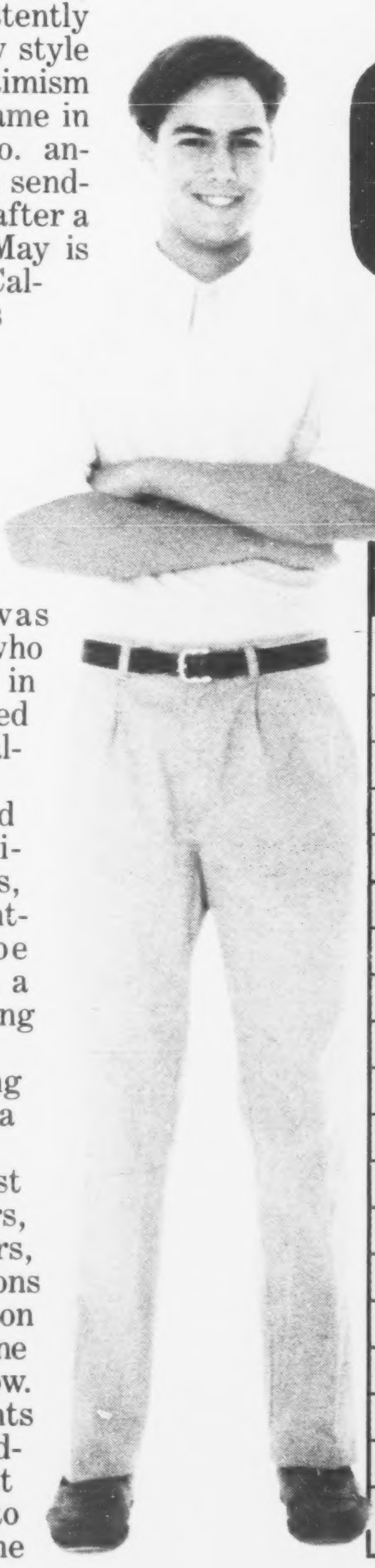
“I'll be looking to find some deals on fall merchandise,” said Gene Kozack, president of NBO. Seven representatives from NBO will be in attendance. Sweaters and outerwear are shopping priorities for the retailer, according to Kozack.

Though MAGIC is held twice a year, many retailers regard the fall show as the more important. The fall edition features late holiday and spring merchandise, seasons that are tailor-made for lifestyle fashions that continue doing well at retail.

This MAGIC is the third to be held at the Las Vegas Convention Center after moving from Los Angeles last October. Though there were plenty of initial complaints, both exhibitors and retailers now contend that the space itself is more conducive to an efficient and well-organized show.

Retailers found Los Angeles convenient because shopping the West Coast stores was easily done after the show. Though almost every major men's manufacturer and category is exhibited in Las Vegas, few retailers are willing to give up the trip further west to see what's happening in the Los Angeles shops. Both K mart and Jamesway, for instance, plan jaunts to California when the show is over, confirming again that casual, activewear garments that go sunning and surfing are the things to keep an eye on.

Throughout the three-day event, show organizers plan a continuing number of fashion shows featuring exhibitor garments in the main lobby of the Convention Center. In addition, all show participants are invited to a Grand Opening Party in the Convention Center parking lot, which will kick off the event.

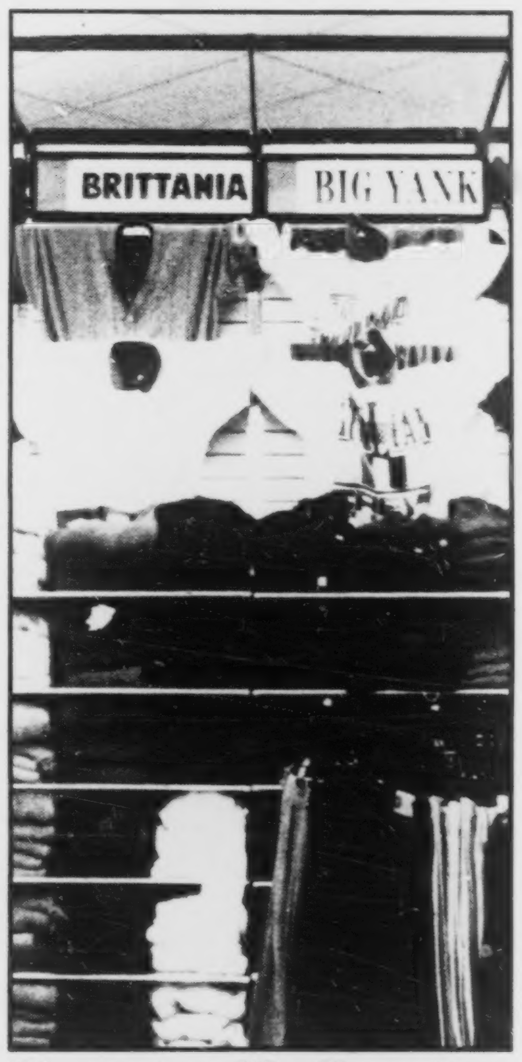


Cornering today's men's apparel market is elementary: ‘lifestyle’ means comfort and fashion savvy.

Top Men's Wear Discounters

Chains	1989 Sales (In Millions)
K mart	$2,363
Wal-Mart	2,259
Sears Roebuck	1,849
Mervyns	895
Target	782
Ames	651
Montgomery Ward	563
Marshalls	455
T.J. Maxx	419
Bradlees	255
Fred Meyer	211
Ross Stores	193
Hills	179
Syms	168
Caldor	162
ShopKo	152
Filene's Basement	88

Source: Apparel Merchandising, DSN Research.



***Discounters like K mart** are planning excursions to California after MAGIC.* (DSN photo)

This section was written by Jill Lettich, Associate Editor/Apparel for DSN.

MARKETWATCH

TJX Cos. Posts 2Q Surge in Earnings

FRAMINGHAM, Mass. — TJX Cos. reported increases in its operating earnings for the second quarter of 1990, evidence that it has weathered the storm of restructuring and adjustments related to the Ames Department Stores bankruptcy.

TJX Cos. reported income from the second quarter ending July 28 of $14.4 million, up 40 percent over last year's figures. After adjustment, earnings in the same period in 1989 came to $10.4 million.

Net sales for the second quarter increased 14.4 percent to $572.5 million, up from $500.3 million last year, bringing sales to $1,086.2 million for the first half, up 12.4 percent over the same period last year.

TJX Cos. includes 367 T.J. Maxx stores, 572 Hit or Miss stores and the Chadwicks of Boston catalog. According to Bernard Cammarata, president and ceo, all three divisions showed operating profits in the quarter.

At T.J. Maxx, the company reported moderate sportswear, dresses, girls' wear and home furnishings were performing strongly. The fall edition of the Chadwicks catalog also “realized significant growth in sales and operating income.”

Hit or Miss was the only division to show earnings below 1989 levels. “We continue to seek improvements in gross margins and operating income over the long term from our strategy of managing Hit or Miss with lower inventory levels,” Cammarata said.

J. Baker a Shoe-In At Rose's Stores

HENDERSON, N.C. — Rose's Stores has given J. Baker, footwear merchandiser, operating control over the shoe centers in all of Rose's 258 stores.

The retailer reported that it received a cash payment for the purchase of the existing shoe inventory and fixtures as well as other considerations. Rose's will receive a fixed percentage participation in future revenues of the shoe centers.

“The increased focus and expertise provided by the arrangement with J. Baker will substantially improve the volume and profitability of the shoe centers in our stores,” said L.H. Harvin III, Rose's chairman and ceo.

HOME PRODUCTS

Housewares • Domestics • Photo • Consumer Electronics • Home Office • RTA Furniture

Closet Organizer Chains Step Out

Specialty Outlets Explore New Markets

A Sampling of Closet Organizer Specialty Chains

Chain, Headquarters	Stores 8/90	Stores 1/91	Average Purchase	1990 Sales	Prototype Size (In Sq. Ft.)
California Closet* Los Angeles	101	103	$1,250	$63M	4,500
Hold Everything San Francisco	18	23	NA	NA	1,800
The Container Store Dallas	8	8	15	NA	16,000
Placewares Boston	7	9	45	NA	24,000
Just Closets Menlo Park, Calif.**	5	5	24	1.8M	1,200
Hold It! St. Paul, Minn.	4	5	28***	4.0M	10,000
Spaces Chicago	4	4	30	NA	6,000
Closet Concepts Lexington, Ky.	2	0	65	NA	2,800

*Operates factory showrooms displaying custom installation options, not stores.
**Largest franchiser of Petaluma, Calif. parent company; 8 units in chain.
***Does not include sales of high-ticket closet installations.

NA—not available.

Source: DSN research

By Mary Ellen Kelly
Nationwide DSN Report

Look out full-line discount, home center and department store retailers: the organizer specialty store industry is weaving its way into the fiber of most major markets in the United States and is ready to pull the rug out from others that sell organizer products.

The one-two punch: providing not only unparalleled services, but also competitive pricing on basics.

The organizer specialty store business is dominated by a couple of large companies, but today's small operators are evolving into chains and many single-unit firms have come together and formed a buying group called the Storage Sources Group.

Williams Sonoma's Hold Everything stores and catalogs are clearly in the lead in terms of staking out market share. The synergy between Hold Everything and the newly acquired California Closets custom installation firm is expected to propel this Williams Sonoma duo light years ahead of competitors.

Manufacturers are responding to this growing contingency by working with specialty chains for customized product that can be sold in a full-service retail environment.

Kent Heltne, Eastern regional sales manager with vendor Lee/Rowan said the company is already supplying some exclusive products to Hold Everything and provides private label products to several other retailers, often in the form of different product configurations.

"The specialty people have a great deal to do with new product introductions. We are very interested in their opinions," Heltne said, noting that the company brought together 12 of these retailers in St. Louis last October for a two-day conference. He envisions this idea interchange occurring every two years.

Organizer specialty stores were in the top third of leading growth channels for the manufacturer, based on year to date volume through June.

Lee/Rowan recently expanded its ventilated wire storage systems through the acquisition of Space Solvers from American Distributors of Chicago. The new product line is expected to add several million dollars to Lee/Rowan's annual sales.

Mike Reilly, vice president sales and marketing, of Chicago-based Selfix, said the company's business with specialty chains went from nearly zero to nearly $10 million through the acquisition of Independent Products Co. (IPC), this past June. He expects a doubling of specialty business by the end of calendar 1991.

"We perceive the future of organizer specialty chains to be quite healthy," Reilly said. Other acquisitions by Selfix are possible during 1991 that could continue the company's "thrust toward becoming a leader in organizer products," he added.

Bob Miceli, vice president sales and marketing at Corr-Pak, said his company's business with specialty retailers is growing in certain product areas. "We plan to further enhance our business in the specialty area," Miceli said. "We will be marketing products toward the specialty area in a much more intensive way in the next 90 days," he said, but would give no details.

Neil Balter, president of California Closet, told *DSN* it was the recognition that "ultimately the retail side of the business will be the driving factor of installation sales," which prompted Balter to join the Williams Sonoma fold. The first 12-foot California Closet section opened within a Hold Everything retail store in Washington, D.C., in June; a second was slated to open in Denver shortly before presstime.

Rivals Concerned by Merger

"Competitors are quite concerned about our combination," Balter said, referring to both the retail sales of Hold Everything merchandise and the availability of California Closet customized service. "We clearly have the opportunity to really control the home organization category."

Most of next year will be spent "combining the two companies," and incorporating California Closet into all Hold Everything stores Balter said, but he expects to open another two or three California Closet factory showroom locations as well. The company currently operates 96 franchised factory showrooms and five company-owned units.

Hold Everything, with stores in California, Washing-

(Continued on page 82)

MARKETWATCH

Circuit City Sales Rise 15% in July

RICHMOND, Va. — Circuit City joined the rest of the pack, at least for the month of July, as its same store sales declined 1 percent, a rarity for the consumer electronics giant. Chief executive officer Richard Sharp said that the decline was due to there being one less Saturday in July '90 than in the previous July. Overall, the company's sales increased 15 percent to $183.9 million for the month. The company also announced that it would open its 12th superstore in San Francisco, and would also open two more Impulse ministores in Plantation and Palm Beach Gardens, Fla., in August. These will be the fifth and sixth Impulse mall stores in a test that has run for two years.

Office Stop Taps Investment Bank

SAN ANTONIO, Texas — Office Stop parent Office Products of America has hired the investment banking firm of Jesup, Josephthal & Co. to advise it on capital requirements for future store expansion, company president Thomas Klimback reported. He added that the company now expects to open five more stores by year-end to bring total store count to eight, but that financing after that has not yet been obtained. He added that the company cannot give assurance that such financing (and hence, expansion) will occur.

Pace Installs DuPont Carpeting

AURORA, Colo. — Pace Wholesale Clubs has introduced installed carpet departments in combination with DuPont. The departments, which premiered earlier this summer, offer DuPont products at $20.99 and $26.99 a yard, including pads and installation. For a $15 fee, the company will send a service representative to a customer's home to measure; a sample book is available for a $25 refundable deposit.

LIVE Entertainment 2Q Sales Jump

LOS ANGELES — LIVE Entertainment announced a 76 percent increase in second quarter sales over the previous year. Sales reached $144.5 million, with operating profits of $12.5 million, also a 76 percent increase. For the first six months, sales doubled to $292.8 million, and operating profits rose 86 percent to $23.7 million. Net income for the period rose 44 percent, to $3.9 million. However, chairman Wayne Patterson noted that profits were mainly attributable to the performance of the LIVE Home Video division. "These second quarter results demonstrate the strength of the home video division, especially given the fact that its most significant releases will occur in the second half," Patterson said.

Organizer Specialty Chains Explore New Markets

(Continued from page 81)

ton, Oregon, Virginia and New York, just opened its first locations in Colorado and New Jersey last month.

The Container Store, Dallas, was opening a new prototype store at presstime in Fort Worth, Texas. The new store is 16,000 square feet and is the first freestanding store of the eight-unit chain.

The prototype's unique architecture boasts a huge skylight set in the center of a steepled ceiling. A second prototype unit is slated for Plano, Texas, next spring. The company plans to expand all other stores as close to the new prototype size as possible, starting with its three Dallas locations.

The Container Store will be among the first to go outside the boundaries of its headquarters state. The retailer is said to be eyeing locations in Atlanta for stores by the end of next year. The new prototype also represents the largest multi-unit organizer specialty store format in operation.

At the other end of the spectrum is Spaces. While the company's 5,000-square-foot to 7,000-square-foot units are not the smallest in the market, it is one of few companies that are reducing the size of future stores somewhat. John Welnack, president and chief executive officer said the company is trying to adjust its assortment to be more upscale and focused as part of its "concentration on asset management," Welnack said. Two of the company's stores are in mall locations; the other two are in strip centers.

Hold It!, St. Paul, Minn., is another chain that is anticipating growth beyond its Twin Cities market by the start of 1992. Marvin Krichmar, general manager, said the company plans to open another two stores in the Twin Cities for a total of five stores before moving to a new market. While no decisions have been made, Madison, Wis., is under consideration.

Hold It! currently operates two stores in the Twin Cities area and two in San Diego. A third Twin Cities store is slated to open during the fourth quarter of this year. The retailer has not advertised much to date, but with the opening of the third store Krichmar said he expects to add television advertising to his radio and print ad budget.

The basic Hold It! concept has not been changed much since its inception, but recent adjustments in the mix reflect consumer buying trends and new competitors. "We increased space for laundry items like ironing boards and racks and decreased space for packing/wrapping and corrugated basics," said Krichmar. "A lot of packaging specialty stores cropping up now. Since these products were low margin and take up a lot of space, we trimmed the assortment," he added.

Hold It! is perhaps the only specialty store besides California Closet/Hold Everything stores that offers both retail sales and installation of customized organization systems.

Maynard Hale Lyndon and his wife Lu Wendel Lyndon have cultivated the Boston organization market by opening seven stores, with another two slated for next year. The expansion pace could pick-up if one of the chain's major investors, CML, Acton, Mass., decided to acquire the chain. CML is also a major investor in other burgeoning home fashions-oriented retailers.

Maynard Hale Lyndon told *DSN* the next logical place for expansion for Placewares is Connecticut. The first Placewares in Connecticut could open by 1992. The retailer operates a 16,000-square-foot distribution center and owns its own trucking fleet. Lyndon estimated he could cover the entire New England region with the single DC.

The president of California Closet, *Neil Balter, said his customized closet service will be integrated into all Hold Everything stores. The chain was bought by Williams Sonoma earlier this year.* (DSN photo)

Doubts Cast on '89 NHMA Survey

CHICAGO — The housewares industry is in the throes of a major retail shake-up, if the just-released data from the National Housewares Manufacturers Association (NHMA) is on target. The association itself, however, has cast doubt on the accuracy of its annual statistics and is planning to completely overhaul the entire approach to the yearly survey it sponsors.

This year's data is preceded by a disclaimer which warns that the survey is: unaudited; based on a small survey population and a group that is different from the previous year.

Kimberly Rawn, NHMA's director of communications, said the trade association is accepting recommendations from other researchers and statisticians, and could ultimately choose to work with another research group. Deloitte & Touche and the firm's Braxton Associates division have undertaken the NHMA annual study since it replaced Chicago-based B. Angell & Associates three years ago.

"We're looking to provide solid information that everyone can agree about. It might mean taking a niche approach rather than a broad brush approach," said Rawn. "We have a real ambitious task ahead of us."

The NHMA is also going to be conducting a "needs" assessment to determine what the trade group should be doing for its membership. "The membership sees us more as a show sponsor and we need to be significantly more than that."

The housewares industry as a whole grew 9.4 percent between 1988 and 1989 to $38.5 billion (in manufacturer sales), a drop in the growth rate from 1987 when volume had grown by 12.6 percent.

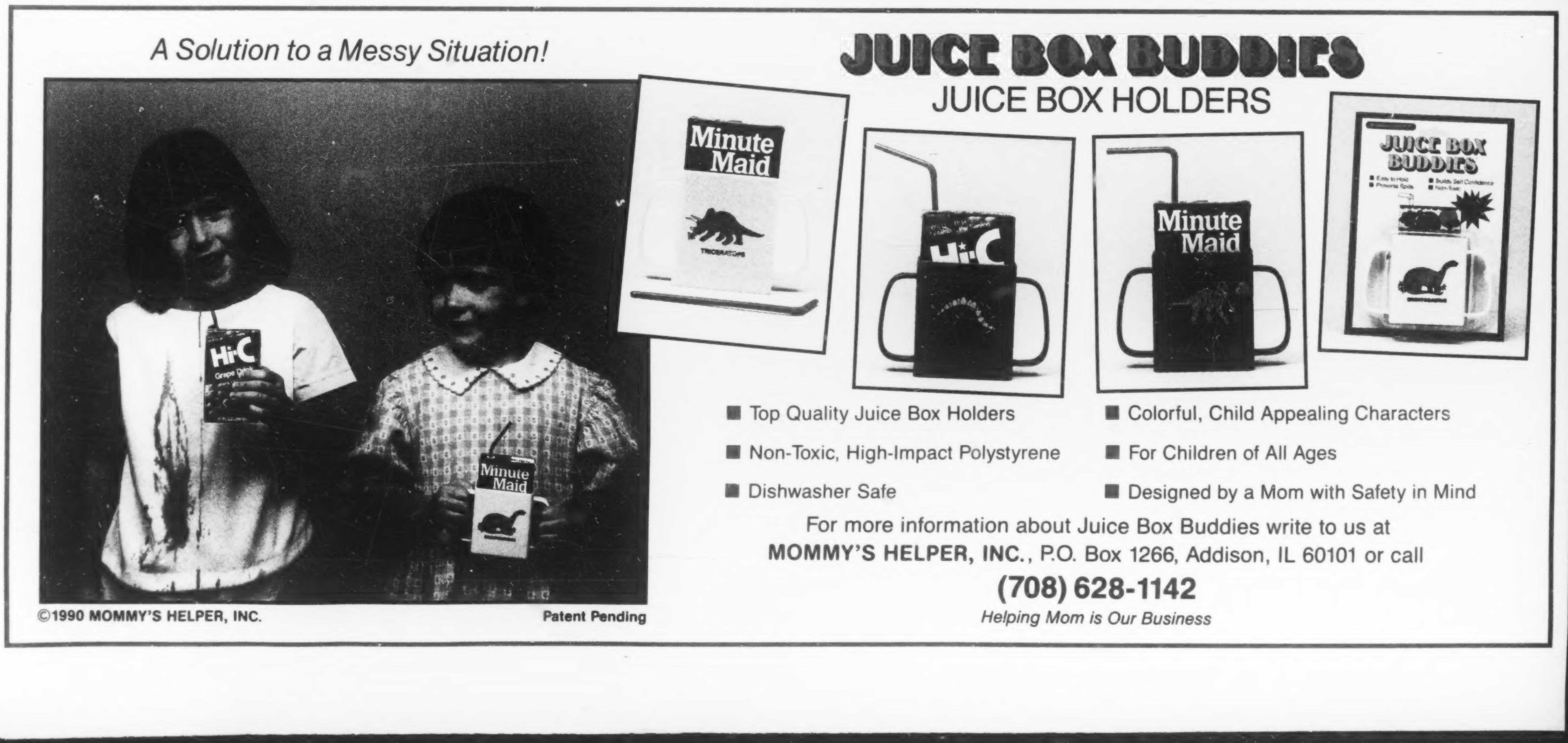
Housewares sales through discount chains were reported to be 16.2 percent of the total volume in 1989, as discounters retained their long-standing industry dominance. The 1988 survey population had estimated discounters represented 27.5 percent of total housewares sales.

Mail order, gift/novelty shops, home furnishings & appliance stores, home centers and manufacturer outlet stores were more important to the 1989 survey group. If the two years were compared, many of these retail channels more than doubled their percentage of total housewares business.

One of the areas where the NHMA survey results is most questionable is in furniture sales. In 1988, discount chain had been the No. 1 channel for furniture sales. Last year, according to the survey, they were not even among the top three types of stores for sales of furniture.

Mail-order houses were the No. 1 furniture outlet last year with department stores and home furnishings stores second and third. Consumer familiarity with ready-to-assemble furniture combined with a dramatic increase in the number of direct mail retailers that offer RTA may have resulted in significant growth. While percentage growth was probably very high, it is doubtful that mail order could actually have usurped discounter's top position in the category.

In 1988, discounters had been tops in sales of cleaning products, but were superseded by both wholesalers and supermarkets in 1989. If the results from the two surveys could be compared, department stores reclaimed dominance in cookware and bakeware, while discounters took back sales of kitchenware and accessories from supermarkets.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Patent Pending

Market Woes Force Pamida To Postpone Sale of Stock

(Continued from page 1)

Indicative of stock market turmoil, worsened by the Iraqi invasion of Kuwait on Aug. 2, the bellwether Dow Jones Industrial Average plunged 439.6 points from its high of 2,999.79 on July 17 to 2,560.15 on Aug. 22, for a 14.7 percent loss.

"Subject [to market conditions] and doubtful" is how a brokerage executive assessed Pamida's prospects at presstime for once again going public, at least until the market regains its feet. After the Dow dropped 50 more points the morning of Aug. 23, the executive said you can "put Pamida's IPO on the back burner."

Even without the IPO, Pamida will be able to continue its past expansion pace with internal cash flow, said president Frank Schlosser. Depending on the stock market, Pamida still hopes to go public, he said.

Management wants to take Pamida public to increase its "ability to grow the company," Schlosser said.

Management, which holds a 12.3 percent stake, isn't selling its shares, Schlosser said. Citicorp Venture Capital, which holds 21.9 percent, and other venture capital partners are selling 1 million shares because of regulatory reasons, Schlosser said.

Pamida plans to issue 3 million more shares for a total of 4 million to be sold to the public, or half of the 8 million shares that would be outstanding. At the anticipated price of $14.50 per share, Merrill Lynch pegs the market value of Pamida at $116 million.

Yet, Pamida today is worth about $300 million, Schlosser said, compared to about $170 million paid four years ago in a management-led LBO. "We've realized a nice value for the company," he said.

Over the past 10 years, Pamida has recorded substantial growth in sales and profits, he said. Sales rose from $333 million in 1982 to $621 million last year, for an 8 percent compounded growth rate. Operating profits rose to $36.3 million from $9.3 million.

Pamida, now operating 173 stores averaging 25,000 square feet, was a public company from 1969 until 1981, when employees bought the chain from founder J.D. Witherspoon for $55 million. The Employee Stock Ownership Plan was financed with borrowed money. In July 1986, management, including Schlosser and chairman and ceo C. Clayton Burkstrand, bought Pamida from its employees in a second LBO for $168 million. Citicorp Venture Capital, which holds a 21.9 percent stake, arranged the debt financing that now dampens net profits. Burkstrand and Schlosser hold an 11.1 percent stake between them.

If the IPO goes through, Pamida would use $39 million of the net proceeds to reduce long-term debt and apply the balance to stockholder's equity, states a preliminary stock offering prospectus. Debt, both short and long term, stands at $210.7 million and stockholders equity at $8.5 million for a debt to equity ratio of almost 25-to-1.

After the stock issue, debt would stand at $178.8 million and equity at $45.2 million, for a pro-forma debt to equity ratio of 4-to-1.

In 1989, Pamida earned $36.3 million in operating profits, or 5.9 percent of sales.

Interest expense, however, gobbled four points of that and income taxes 0.9 percent more, reducing net profit to 1 percent of sales, or $4.7 million. Following the LBO, interest expense rose more than four-fold from $5.3 million in 1986 to $24.9 million in 1987.

Merrill Lynch Capital, its IPO underwriter, projects selling 4 million shares at $14.50 per share, or a few pennies less than tangible book value of $14.57, but estimates the price could range from a low of $13 to a high of $16. Total shares outstanding would be 8 million, leaving a 50 percent stake in the chain in public hands.

Pamida is attempting to increase profits by enlarging its stores so they can carry more apparel that offers better margins. Soft lines accounted for 28 percent of sales in 1989, hard lines, 66 percent, and food, 6 percent.

The chain also wants larger stores so it can offer additional pharmacy and eye care services, a major customer draw. Pamida now operates 21 pharmacies, and 31 other stores offer either pharmacies or vision centers, or both, through leased operators.

But 45 percent of its stores, or 77 units, measure less than 25,000 square feet, against the desired prototype of 35,000 to 40,000. Indeed, 22 stores, or 13 percent, range from just 5,000 to 15,000 square feet. Over the past nine years, Pamida has closed a net of 13 smaller stores while increasing total square footage 23 percent to 4.3 million from 3.5 million.

The chain hopes to increase expansion to 15 stores next year from an average of seven over the past five years, the prospectus states. For fiscal year 1990, it spent $14.1 million for new stores, remodeling and other capital expenditures, a sharp increase from $5.2 million in fiscal 1989 and $1.5 million in fiscal 1988.

For locations, Pamida prefers small town county seats, averaging 8,000 in population, in its 12-state operating territory. It has targeted 50 more such towns for expansion.

About half of its stores are in Iowa, with 45 units, and Minnesota, 41. Other major markets are: Wisconsin, 17; Nebraska and Wyoming, 15 each; and South Dakota, 12.

Circuit City Set to Plug In Auto Dept.

(Continued from page 1)

acoustically perfect and visually interesting car accessories "stores within stores" approximately six months before Christmas of 1988.

The first opened in November of that year in the Fort Lauderdale market, which Circuit City was in the process of invading. Less than two years later, over 65 of the new departments are in place and perhaps double that will be in operation by the end of next year.

According to Gross, the parameters of the assignment were clear and unambiguous. "The department had always been called car stereo, but with the introduction of products like cellular telephones, high-end speakers, alarms and navigational devices, the approach was no longer appropriate," she said. "Automobile products were spread all around the store, with no cohesive image. Circuit City wanted to create an environment that would promote sales of a wide spectrum of products, in a lifestyle setting."

The result, after months of consultation with fabrication, acoustic and product experts, is a 750 square foot, fully prefabricated shell that can be dropped into any Circuit City superstore in a matter of days, and become fully operational within two weeks. The new departments replace the old car stereo rooms and nurseries formerly used to entertain shoppers' children.

"I think Circuit City came to us because prefabrication is our specialty," Gross said. "We could remove the departments from the normal construction process [including the variability of local contractors], cost it out, and guarantee acoustic quality and on-time delivery." Those qualities were important to Circuit City, whose own store planners were heavily involved in a national superstore rollout at the time.

The first 35 units (including one that was installed in Circuit City headquarters) were actually built by Dimensional Communications, a New Jersey exhibit technology firm. Since the perfection of the project, it has been shopped out to another vendor.

One of the keys to the new department is its flexibility. While fixtures can't be moved from place to place (due equally to wiring and architectural integrity considerations), panels, walls and fixtures can be "popped out" and replaced. For instance, a wall that now merchandises car alarms can, very quickly, be converted to a car navigation system merchandiser. Gross refers to this as "loose fixturing."

The departments contain a highly advanced, patented (by Circuit City) wiring system that allows salesmen to control dozens of functions from one remote control. Walls, displays, and all wiring connections are predrilled, so once the unit is in place, wiring experts can assemble the department and get it up and running very quickly.

"All skilled [construction] work is done off-site," Gross said. "They don't have to shut down stores at all; all work is done from behind, so the rest of the store can operate normally."

The department is of particular importance to Circuit City because the car accessories market as a whole is one of the few growth areas left in consumer electronics and telecommunications. "Americans are spending more and more time in their cars, and they're looking for better and better products to make the car feel more like home," Gross said. "We tried to build, in our design and materials, a department that would feed everyone's fantasy of what an ideal automobile environment would be like."

The result is a plush, high-tech look coupled with terrific acoustics, an environment inspired by fantasy cars like Lamborghini and Maserati. That approach has evidently spurred sales of this productive subcategory. "People like Circuit City don't judge architects by how pretty the result is," Gross noted. "They judge us by how productive the result is."

Seven Toy Companies in CPSC Suit

(Continued from page 6)

Whatever the reasons, Rumult said the toy companies are supposed to know the regulations and that the CPSC "expects that anything they [the retailers, distributors and importers] sell should comply with CPSC regulations."

The current cases "emphasize the need for American companies to ensure that foreign-made toys are of the same legally-required standards as U.S.-manufactured toys which are produced under tight quality controls," said Leslie Southwick, deputy assistant attorney general for the Civil Division of the Justice Department.

The violative products that brought about the lawsuit were all manufactured in the Far East, Taiwan primarily, but some also were sourced from Korea and Thailand. The products seized in this investigation were taken both from retail shelves and from port docks.

In 1989, the CPSC recalled 150 products totaling 34 million units. Each of these products violated any one of five statutes aimed at ensuring product safety. Among the products recalled were baby strollers, baby rattles, dolls, wind-up train sets and a variety of other children's toys and juvenile products.

In addition, 110 other products required corrective actions, many voluntarily removed from retail shelves, according to the CPSC.

Hills Signs with New Advertising Agency

(Continued from page 5)

little over $1 million, from $7.9 million a year ago. Net loss rose to almost $15.2 million, from $10.2 million in the year ago period.

For the first half of 1990, Hills sales totaled $910.8 million, up 9.9 percent from the same period last year. Same store sales for the two quarters rose 6.6 percent. The firm reported an operating loss of $4.8 million for the half, compared with an operating profit of $2.4 million a year ago. Net loss grew to $32.1 million for the period ended Aug. 4, up from $26.6 million in 1989.

"Earnings in the second quarter continued to be affected by higher expense levels associated with last year's increased rate of new store openings. We expect that these new stores will favorably impact operating results in the important second half of the year," said Stephen Goldberger, chairman and ceo.

"We have been encouraged by recent sales trends and our inventory continues to be well managed. We expect our new advertising programs and chainwide fashion refixturing to provide favorable operating results and assist us in meeting our goals going forward."

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Kmart: Logo Reflects Renewal

'90s Look Unveiled in Antonini's Hometown

By Tony Lisanti

MORGANTOWN, W. Va. — A new logo and a new store gave K mart chairman Joseph Antonini two big reasons to celebrate two weeks ago and clearly demonstrated his vision for the future.

Less than 24 hours after K mart unveiled its new corporate logo Sept. 12 in Oak Park, Mich., the nation's No. 1 discounter opened its first new store sporting the big red "K" here in Antonini's hometown.

The logo, or retail identity symbol, as it is referred to by K mart, is a key part of the $2.3 billion five-year modernization program announced last February.

More important, it is the most highly visible move to date that reflects K mart's commitment to enhance its image. It symbolizes the change from the negative connotations of the "polyester palace" moniker to the positive benefits of a more upscale environment that offers "a better shopping experience and more caring customer service."

"This is not a cosmetic change," Antonini emphasized of the overall strategy dubbed the 'K mart Renewal.' "The logo signifies to the customer that something exciting is happening at K mart."

This message, which Antonini said "reflects the dynamism and excitement of the company's commitment to renewal," was also clearly directed to all its employees. The hoopla of the logo unveiling in the parking lot of the Oak Park, Mich., store was broadcast live via satellite to all K mart stores.

A full-page type-only ad which appeared in *USA Today* showed the old logo printed in blue changing to red with the following statement that echoed Antonini's remarks: "K mart has changed a lot since we opened our first store 27 years ago. Over 2,300 stores later, we're constantly

(Continued on page 119)

mart
Get Ready For Laughs
Girls

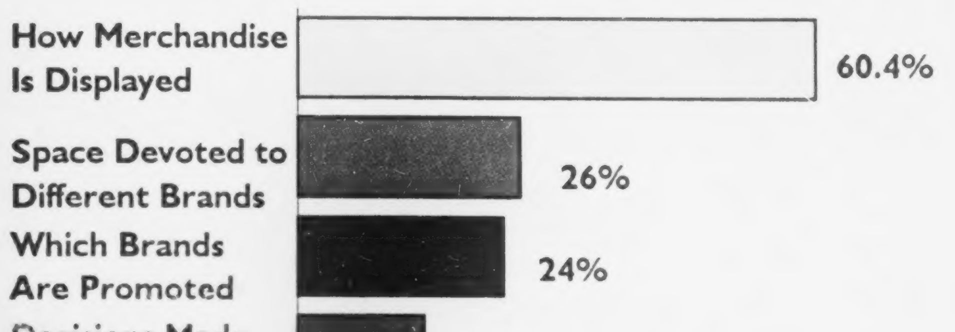
***A la Nordstrom's, a pianist** entertained shoppers during the recent opening of K mart's new upscale prototype in Morgantown, W. Va. K mart's chairman Joe Antonini (inset) poses with new logo, the big red 'K', during historic unveiling in Oak Park, Mich.* (DSN photos)

Store Managers Flex Their Muscles

Exert Limited Influence on Merchandising Decisions

Managers Have Greatest Influence on Displays

Percent of Discount Store Managers Who Say They Have a Good Deal of Influence On:



Percentages add up to more than 100% because some store managers have influence on more than one of the above decisions.

Source: DSN/ Leo J. Shapiro & Associates, Chicago, 1990

By Don Longo
Nationwide DSN Report

Discount department store managers exert a significant, and perhaps to some industry observers, an unexpectedly high amount of influence over the merchandising of products in their stores.

Nine out of 10 managers polled in a recent study by *DSN* said they have some influence on at least one of the following factors:

- The way merchandise is displayed;
- The amount of space devoted to different brands;
- The selection of brands to be promoted;
- Decisions made by buyers;
- Whether or not to stock a particular brand of merchandise in their stores.

However, the study, conducted for *DSN* by Leo J. Shapiro & Associates, Chicago, makes it clear that most of the managers' real influence is limited to the way merchandise is displayed in their stores.

Two-thirds of the discount store managers polled said they exert significant influence on merchandise display, compared with only about one-fourth who said they can sway decisions on space allo-

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With K mart, Office Chain Set to 'Max'-imize Growth

By Laura Liebeck

TROY, Mich. — The sale of K mart's Office Square divison to Cleveland-based OfficeMax strengthens the position of the 35-store office supply retailer as a major player in this booming segment.

K mart is trading its five-store Office Square chain plus an undisclosed sum of cash to OfficeMax in exchange for a 22% equity position in the megastore chain. K mart also gets a seat on the chain's nine-member board.

The sale is expected to be

(Continued on page 119)

Wal-Mart's Pa. Beachhead To Anchor Northeast Push

YORK, Pa. — Wal-Mart has followed in the footsteps of General Robert E. Lee by invading the North.

Just 30 miles from the Gettysburg battleground that saw the high mark of the Confederacy, Wal-Mart is set to open Oct. 1 its first store in the Northeast and the largest of 1,440 units. It is located in the York Mall, where a Sam's Wholesale Club is scheduled to open its first Pennsylvania unit Oct. 22.

In a difference from Gen. Lee, though, look for no retreat from Sam Walton. Over the next 18 months, Wal-Mart

(Continued on page 120)

MARKETWATCH

Sam's Retains Hot Diggity Dog Kiosks

BENTONVILLE, Ark. — Sam's Wholesale Club averted a publicity nightmare by agreeing to retain Hot Diggity Dog kiosks at 18 clubs in Texas and offering the lessee the opportunity to test new ideas at other Sam's. In August, Sam's had notified Hot Diggity Dog, which employs large numbers of handicapped and elderly workers, that it was replacing its hot dog stands with Wal-Mart run units. A hailstorm of criticism led to the agreement which allows Hot Diggity Dog to test expanded menus and pricing strategies at six new stands. If the experiment works, Sam's will allow the company to expand further.

Japan Toy Stores Gear Up for TRU

TOKYO — Japanese toy retailers have stepped up their endeavors to stymie Toys 'R' Us' effort to open stores in that nation next year and operate 100 units by the end of the decade. Eleven Japanese merchants have set up the Japan Association of Specialty Toy Shops to "provide support" to small retailers that will face competition from the American chain. TRU's drive to enter Japan gained momentum in May when the Japanese government eased its Large Retail Store Law that enabled local retailers to put up legal barriers to large chains entering their area.

The Warehouse Club Shuts 2 Stores

SKOKIE, Ill. — The Warehouse Club has shut its unprofitable Columbus, Ohio, and Versailles, Pa., units and expects to record about a $1.8 million write-off for the move in the fiscal year ended Sept. 30. The company said the closings should improve cash flow and increase inventory levels at its 10 other units. The Columbus store is to be sold and the Versailles unit is to be subleased. A proposed sale/leaseback refinancing deal involving six other stores is on hold as the purchaser "is having difficulties in securing the required financing."

Melville Completes Peoples Purchase

RYE, N.Y. — Melville Corp. has completed its $325 million cash acquisition of Peoples Drug Stores, a $1.02 billion business whose 490 stores in the Middle Atlantic states overlap the markets served by Melville's CVS chain. CVS has 820 drug stores, mainly in the Northeast, that generated $1.95 billion in sales last year.

Big Board Delists Best Products Notes

RICHMOND, Va. — The New York Stock Exchange, at Best Products' request, has delisted the cataloger's 12⅝ Senior Subordinated Notes due Dec. 1, 1996, due to the small number of notes outstanding. Of the more than $200 million in notes issued in December 1986, fewer than $2.4 million remain outstanding. These will continue to be traded over-the-counter.

EDI Yellow Pages Lists 38% More Firms

DALLAS — EDI, spread the word! has issued the sixth edition of the EDI Yellow Pages, an international EDI directory that listed 12,200 users of this technology in 52 countries, up 38.6% from the 8,800 users noted in the previous directory. The United States registry of users—retailers, vendors, transportation firms, manufacturing companies, etc.—increased 19.2% to 9,400 from 7,888. EDI Yellow Pages is available by calling (214) 243-3456.

Promo Group Discusses Relationships

NEW YORK — The Promotion Marketing Association of America will discuss successful promo partnerships with retailers at a luncheon Oct. 4 at the Halloran House hotel in New York. Panel members are Tom Kiley, gmm, Jamesway; Kevin McGiveny, merchandise manager, H&BA, Genovese Drug Stores, and Sid Zuckerman, vp, advertising, Waldbaums. Info: PMAA, (212) 206-1100.

Meeting Set for EDI Users Group

DAYTON, Ohio — The Uniform Code Council has set two meetings for the UCS/WINS/VICS EDI Users Group. One will provide overviews on these technologies and include case studies on Wal-Mart's QuickResponse program and on Sears Electronic Fund Transfer system. It will be held Oct. 25 to 26 at the Intercontinental Hotel, Miami. A separate implementors workshop meeting will be held Nov. 9 at the Walt Disney World Dolphin Hotel, Orlando, Fla. Information: UCC, (513) 435-3870.

QVC Integrates CVN Strategies

Starts Anytime Ordering, Easy Pay, QVC Card

By Arthur Markowitz

WEST CHESTER, Pa. — Teleshopper QVC has implemented three marketing strategies to make its retailing more attractive to cable shoppers while differentiating the service from its main competitor, Home Shopping Network.

The moves followed QVC's March 30th integration of the CVN teleshopping network into its own operation, boosting QVC's cable reach to 35.8 million homes from 16.1 million households at the time QVC was acquired for $463.6 million in October 1989.

QVC's three "sales-building strategies," all of which were programs successfully deployed by CVN, are:

- An order anytime policy, which went into effect last month, by which shoppers can order merchandise at any time as long as stock is available, not just when an item is being sold during a broadcast.

QVC sells merchandise in segmented programs, usually one hour long. It distributed a monthly program guide, so consumers know when specific merchandise will be sold, enabling them to tune into that segment or, under the new policy, tape the show for later viewing and ordering.

The introduction of the order anytime service required a major change in QVC's computer program. Its sales tracking system—just like competitor HSN's—was originally designed to record purchases just when the goods were being sold.

- An easy pay plan, started in July, allows customers to pay for selected big-ticket items on an installment basis over a few months.
- The introduction of a QVC charge card in May, underwritten by the General Electric Credit Corp., also made shopping easier.

QVC founder and chairman Joseph M. Segel told a New York Society of Security Analysts meeting that "the CVN consolidation temporarily disrupted viewership and looks longer to wrap up than expected." CVN shoppers haven't become QVC customers as quickly as the video retailer had projected, he added, "so we lost ground in April and May and we don't expect to overcome the losses despite a projected profitable fourth quarter."

He said the first-quarter and half-year losses would continue through the third quarter ending this month despite big jumps in sales due to

(Continued on page 119)

Target Kicks Off Fall NFL Football Promotion

MINNEAPOLIS — Target is blitzing the airwaves with TV spots about its seven-week fall promotion keyed on Monday Night Football.

In cooperation with Ultra SlimFast, Target is offering about 125,000 prizes in a scratch-and-win game based on game pieces handed out at checkout. In compliance with federal lottery rules, customers can play without having to buy anything.

If their cards show instant winners, they receive either tickets to the 1991 Super Bowl or a 27-inch Sony TV.

If their cards don't show an instant winner, they show a number that could be a football game final score. If that score is the actual outcome of the following Monday night football game, the winner gets a $5 Target gift certificate.

Ultra SlimFast is the major sponsor of the game and enjoys Target store banners, signage and product displays. Customers get cents-off coupons for future purchases when they receive their game card. Other co-sponsors are: Diet Coke, Nabisco's Oreos, Black & Decker, Gillette Sensor, Prestone anti-freeze and Castrol motor oil. Customers also get cents, or even dollars off, coupons for these products.

Target kicked off the promo with a three-day TV advertising offense, followed by TV spots during Monday night football games.

Having started Sunday, Sept. 2 in Target stores, the football promo runs through Oct. 15.

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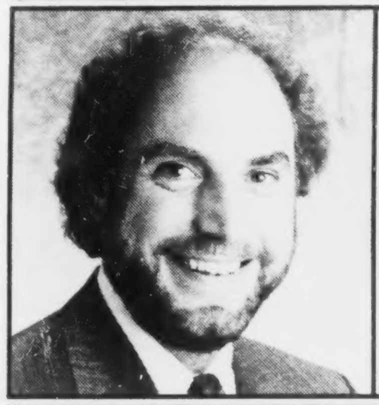
EDITORIAL

Busy Antonini Goes Back to the Future

It was definitely a wearying few days for K mart chairman Joe Antonini. But admittedly, Antonini savored and enjoyed every minute.

First of all, it was probably the first time the dynamic chief executive held a few press conferences and meetings at which he wasn't criticized or challenged or raked over the coals by the press. He didn't have to defend a poor sales report or a $6 million fine from the U.S. Customs Service. No, all he had to do was unveil a new logo, talk about one of the most significant changes in K mart history, and open a new store—not just 'another store' but a new prototype K mart in his hometown.



TONY LISANTI
Editor

You could say it was just another day at the big red "K"; another day in the life of a ceo. But it wasn't. These two days were different.

On Sept. 12, K mart unveiled its new logo. Antonini, of course, was there to orchestrate the hoopla and he loved every minute of it. In the parking lot in front of the Oak Park, Mich., store—the first store with the look of the '90s—almost every K mart executive gathered proudly and listened as Antonini discussed the future. He answered questions and posed for pictures in front of the new logo from almost every angle possible. Photographers asked him to move to the left, look up at the logo, hold his hand up towards the logo, and he happily obliged every request—except when I asked him (jokingly) to go up on the roof!

The following morning Antonini was at the new store in his hometown, Morgantown, W. Va. A heavy fog had rolled in and Antonini was lucky that he decided to fly into Morgantown with his family the night before. But, there he was doing the same thing all over again. He unveiled the logo, answered a lot of questions, posed for dozens of pictures, and talked a lot about the future.

It truly was a homecoming. He couldn't take a step through the store or the Morgantown Mall without an old friend stopping him to shake hands, say hello and bring back some fond childhood memories. Two elderly women handed him a card which contained a newspaper clipping of Joseph Edward Antonini as a baby. Another friend had Joe telling stories about their high school basketball team.

Walking through the Morgantown Mall Antonini said, "Look how K mart has changed in the past few years, and this is just the beginning."

For Antonini, it was a momentous occasion. For K mart, it was a milestone in its history. For both, it was the vision of the future.

That's why these two days were different. They symbolized the new spirit at K mart that Antonini has instilled in the company over the past few years. They symbolized the new image of K mart that the discounter so desperately wants to improve. They symbolized the new K mart that will emerge over the next five years as the $2.3 billion modernization program is implemented.

The only question is will how these two days will be viewed in 1995.

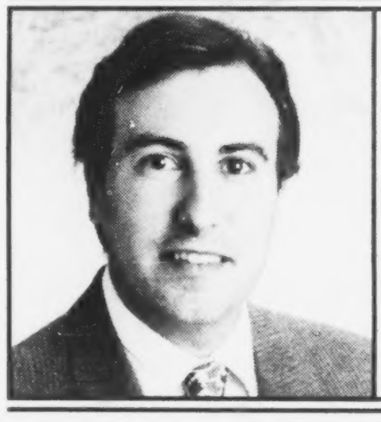
P.S. There are many things that are different at K mart. In its year-end issue, *Discount Store News* will present "A Day in the Life of K mart." It will be a exclusive look at K mart's strategies of the '90s, and Antonini's vision of the future. *DSN* editors will travel nationwide meeting with key K mart executives discussing how they personally view the vision and how they will execute it. If you have any views about K mart, fax them to me at (212) 838-9487.

BUYERS & SELLERS

New Kmart Logo Goes Way Beyond Cosmetics

The fanfare with which K mart announced and unveiled its new corporate logo may at first glance appear to be much ado about nothing. After all, the new logo, basically a large red "K" with the word "mart" running in script diagonally across the front of the K, is no great revelation. It may not draw a single additional customer into the store.

However, this simple change on the exterior of the store masks a revolution that is going on inside the four walls. The K mart of the '90s, is nothing like the K mart of yesteryear.



DON LONGO
Exec Editor

Indeed, the K mart of the '90s (as represented by its new prototype stores, such as those in Oak Park, Mich.; Virginia Beach, Va.; Morgantown, W. Va.; Mt. Pocono, Pa.; and Jacksonville, Fla.) is larger, easier to shop, and more attractive than the old K mart that over the years has become a favorite target for the barbs of late-night comedians and has been put down by snide remarks in several movie scripts.

The new identity symbol "keeps K mart in step with the times and reflects the dynamism and excitement of the company's renewal," said chairman Joe Antonini.

There is no way you can underestimate the importance of this change. The company is taking a substantial risk in changing a logo in which it has invested nearly 30 years of equity. Antonini admits that K mart has always had a strong and highly recognizable image. However, it is that image which Antonini is trying to change. Thus, the new logo makes a lot of sense, and the risk appears to be a calculated one. What has K mart to lose in changing a logo that represents an image the company is trying to shed?

After nearly a decade of covering retailing, I've seen prototypes come, and I've seen prototypes go. I'm really impressed with the commitment K mart is making to its new prototype. It doesn't hurt that sales productivity in these stores are running $40 to $50 per square foot higher than those stores were generating prior to being reformatted.

The actual cost of developing the new logo is a drop in the bucket compared to the $2.3 billion ante K mart has placed on the table to refurbish its sagging discount store network. But, when it completes the five-year new store opening, enlargement and modernization program, there will be more than 2,400 brand new K mart stores across the country. These stores will be exciting places to shop. They will offer quality, brand name merchandise at sharp discount prices. They will feature category-dominant departments aimed at reclaiming market share from the category killer specialty stores. They will be supported by a state-of-the-art technology systems and a distribution network driven by centralized merchandising from headquarters.

If Antonini can stay the course through the rough seas ahead, these changes will fashion a new K mart discount store chain—one that will no longer have to wince when Johnny Carson (or whoever is hosting "The Tonight Show" in 1995) needs an easy target for a cheap shot.

READERS' REPLY

DSN Editor Tony Lisanti recently wrote about some of the biggest lies in discount retailing (DSN, Sept. 3, page 8), such as "Just stack it on the shelf, it'll sell" and "A recession will help our business." We asked our readers to fax us some of the biggest lies they've heard. A sampling of the responses:

"Of course you can return it."
"If you need more of that color, it's always in stock."
"As soon as we get them in, we'll give you a call."
"Don't pay any attention to those rumors about us interviewing for your job."
"We always pay on time, you can't shut us off for overdue payment."
"Of course we'll accept delivery. Just call for an appointment."

If you have a good discount lie to add to this list, fax it to us: (212) 838-9487.

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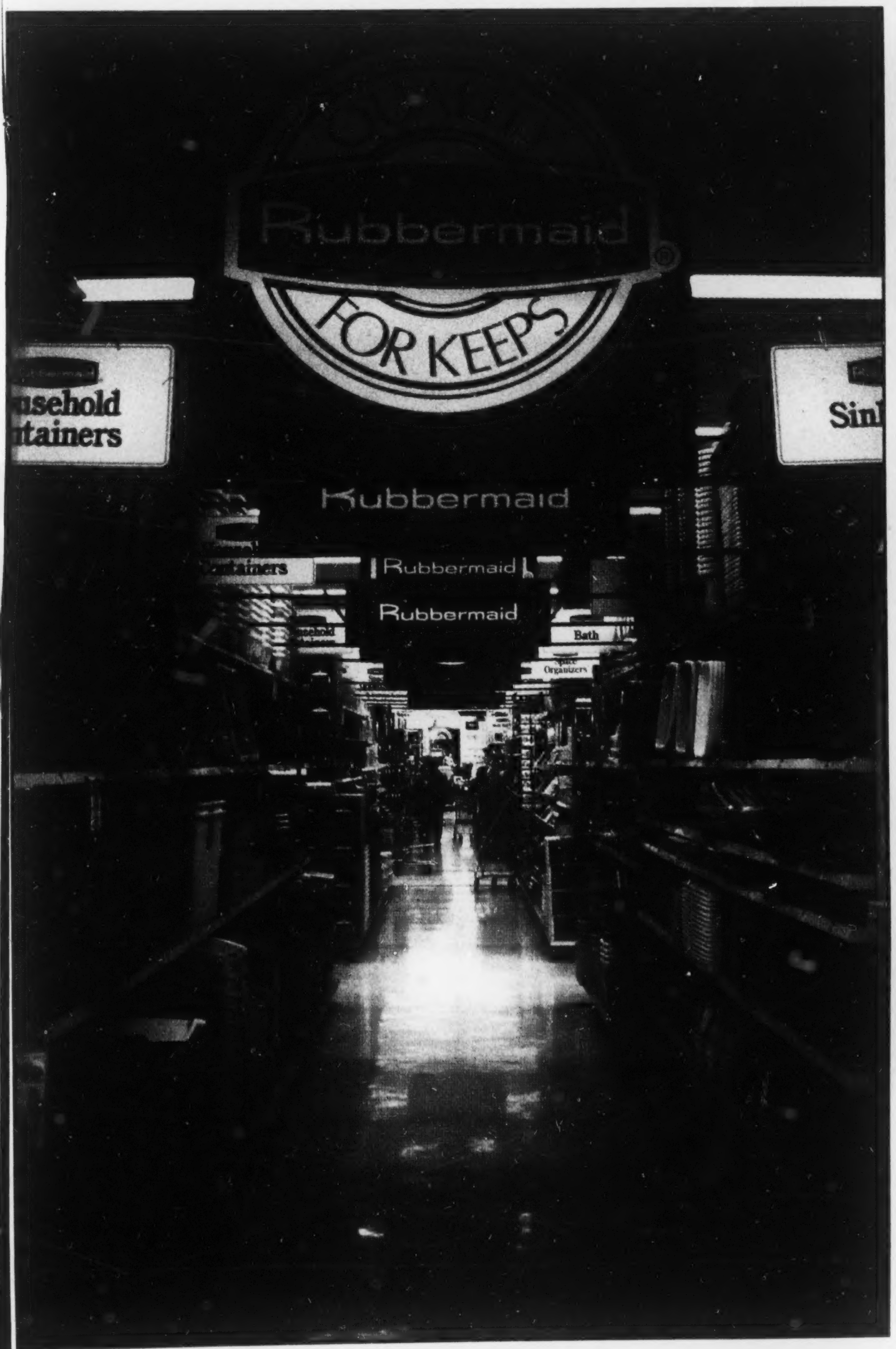
We welcome our readers' views: Letters to the editor should be addressed to: Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022 or Fax (212) 838-9487.

TOP BRANDS

Part I: Store Manager Survey

National name brand merchandise is the lifeblood of the discount store industry, and store managers' perceptions of their best performing brands go a long way toward deciding the ultimate sell-through success of those products. DSN's annual Top Brands survey ranks store managers' top brands in 18 product categories and identifies the reasons why managers feel their top performers succeed the way they do.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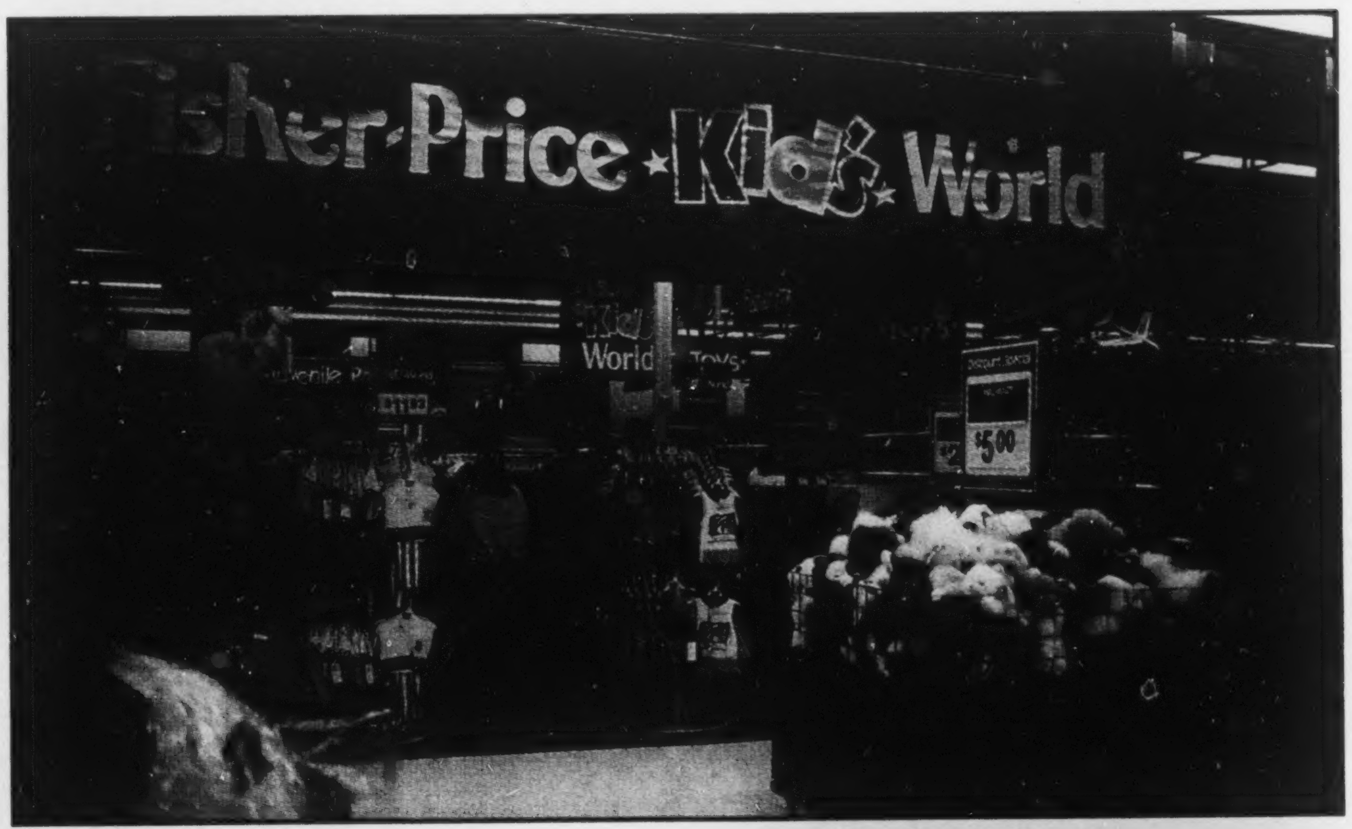
isher-Price Kids World
World
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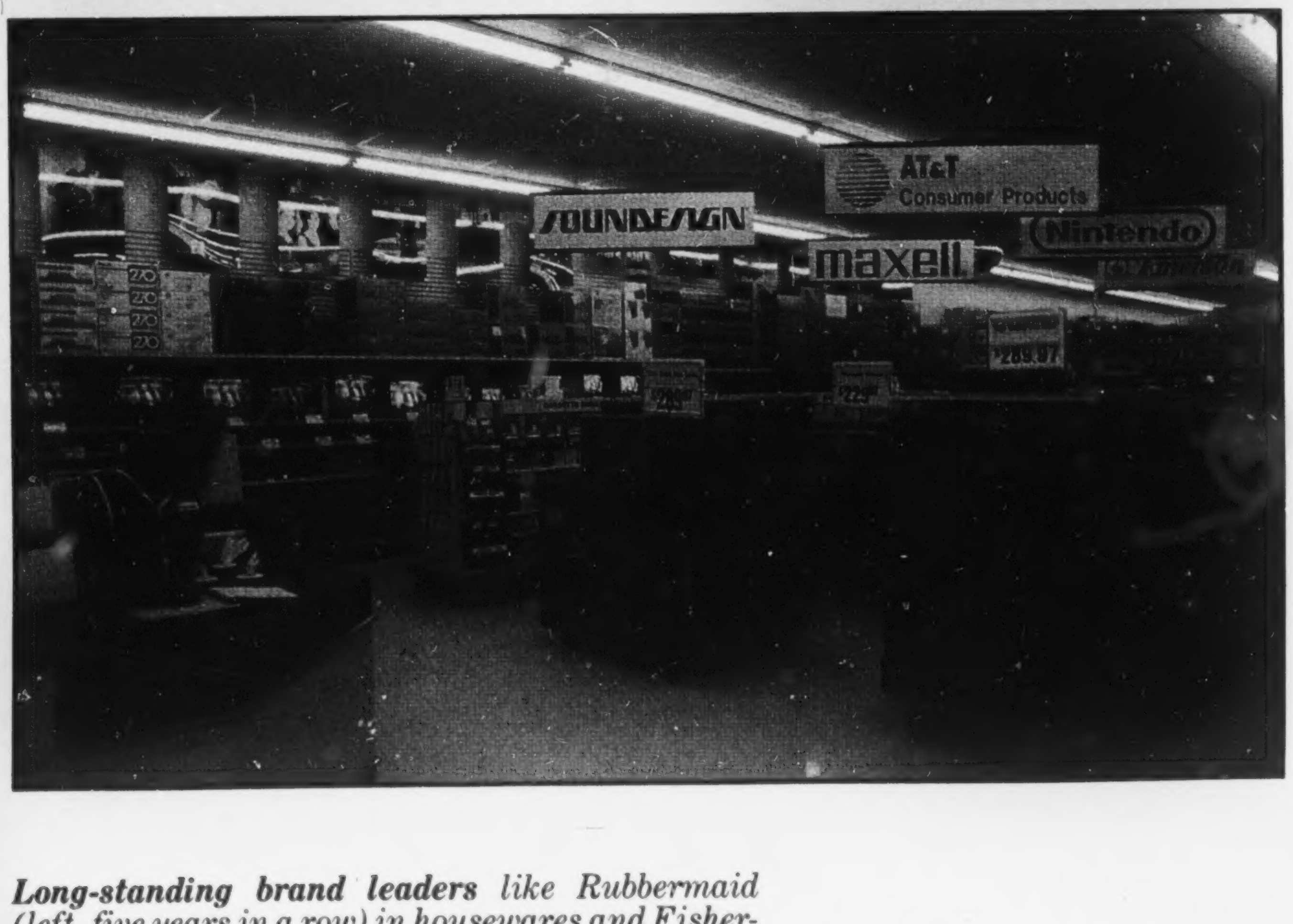
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Long-standing brand leaders *like Rubbermaid (left, five years in a row) in housewares and Fisher-Price (top photo, also a leader for the past five years) in toys again led the list of top brands in their categories. However, in other categories, like consumer electronics (above), the top brands are ranked together very closely.*